CHINA MACRO GROUP
policy · market · strategy
Zurich | Munich | Beijing

Fachhochschule Nordwestschweiz

China nach dem 20. Parteikongress – Wirtschaft, Politik, Reformen

Vortragsreihe: China, die unbekannte Weltmacht – Implikationen und Ansätze für die Schweiz, hosted by. Prof. Dr. Ruedi Nützi

23rd October 2024

Contact:
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China Macro Group (CMG)

China Macro Group (CMG) – a European management consulting firm specialized on China

Profile

- CMG is an agile, diverse and partnership-led **boutique consulting firm** specialized in strategy and management issues relating to China
- CMG serves European **MNCs, SMEs,** the **public sector** as well as **financial investors**
- It focuses on China's **policy, market,** related **geopolitical** and **geoeconomic factors**
- CMG operates with offices in **Zurich, Munich and Beijing**

Value proposition – key management issues

China strategy

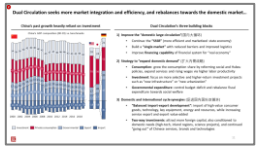
- Reviews, development, scenarios, de-risking

Strategic initiatives / decisions

- Partnerships, investments, M&A or negotiations

Decision-aiding intelligence

- Market / competition / policy and benchmarking



BoD / ExCo briefings

- Strategic business context, market, geopolitics

HQ-subsidiary interaction

- Facilitation, alignment, trainings, monitoring

Our approach

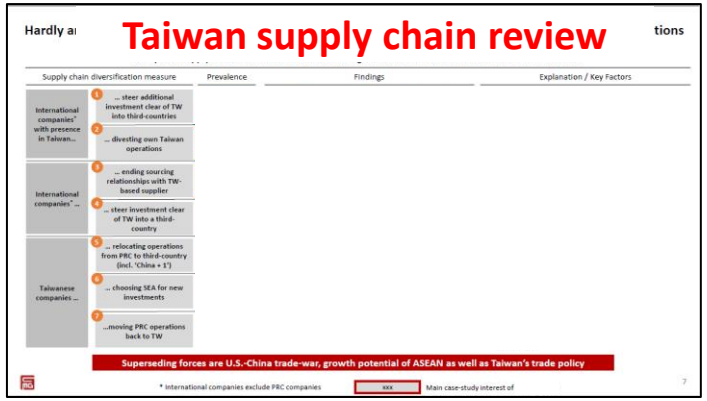
Research values – original, fact-based and calibrated

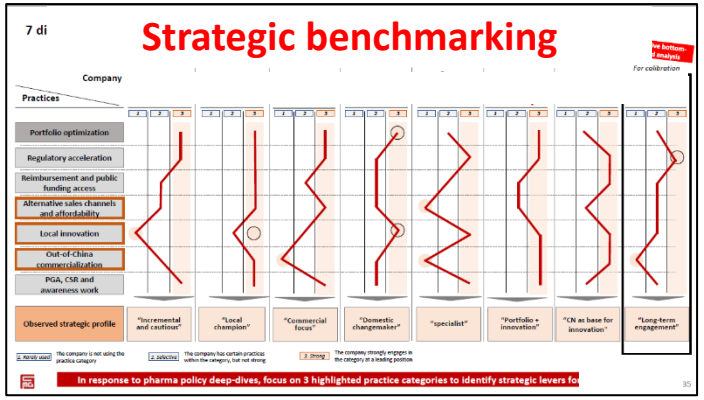
Four lenses: business, economy, public policy and geopolitics / geoeconomics

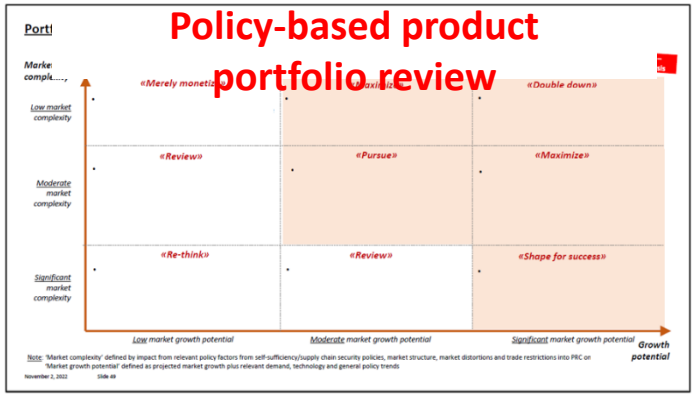
On-the-ground presence and broad Chinese expert network

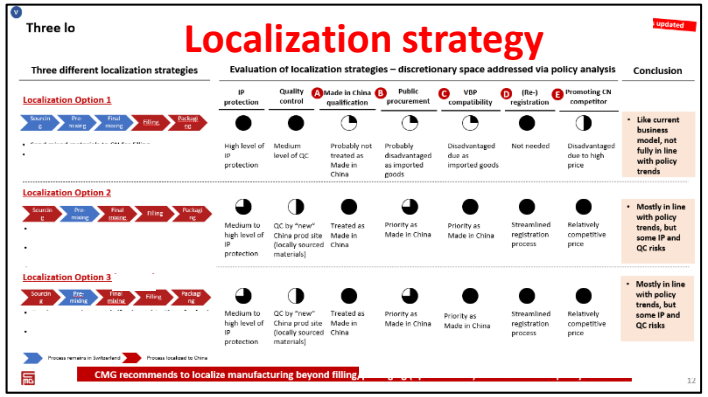
Cross-cultural team and interdisciplinary

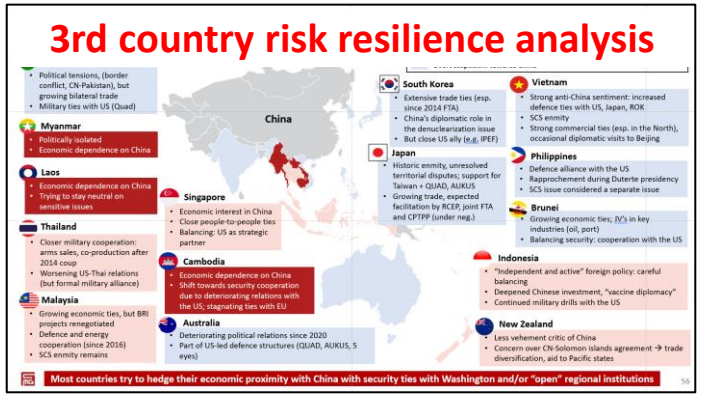
Geopolitics and the BoD? (4/5) – select examples of BoD initiated projects of CMG

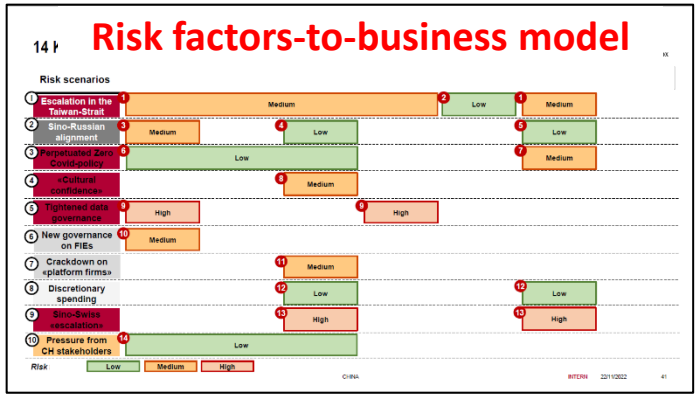


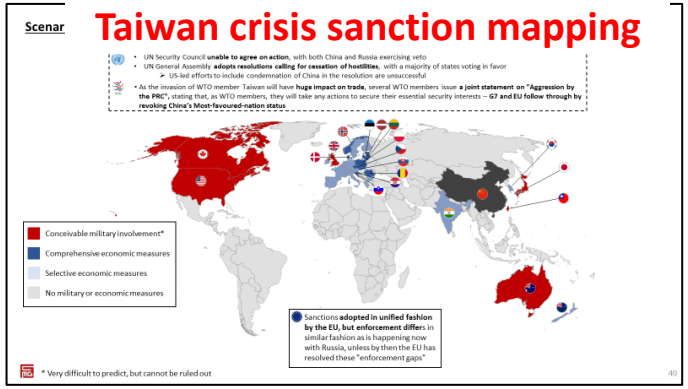


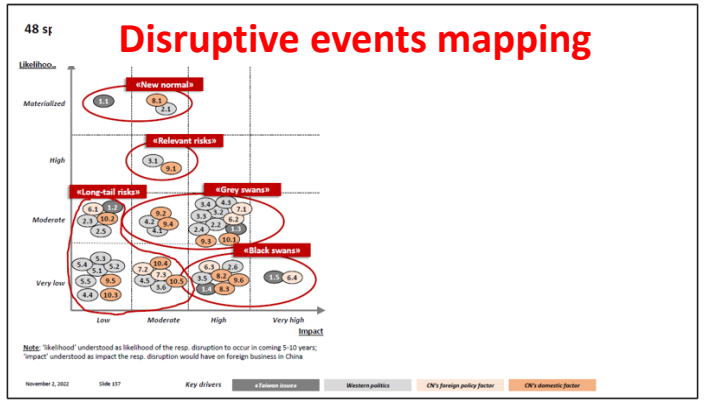












CMG Primers: CMG's in-depth analyses of key political and economic events and topics related to China

Understanding process and key outcomes of the 20th Central Committee Third Plenum

Understanding the "Taiwan issue" – context, influencing factors and outlook

Chinese government remodeled at the Two Sessions 2023 – policy, people and structure

Understanding supply chain distortions of critical minerals powering the green energy transition

EU-China relations – from economic integration to EU's strategic autonomy and 'de-risking'

Understanding process and key outcomes of China's 20th Party Congress

Understanding process and influencing factors of Taiwan's 2024 presidential election

Two Sessions 2024 – Strengthening proactive and better coordinated economic policy

China's risk management – 'Coordinate development and security'

New EUCCC-CMG report "Riskful thinking – navigating the politics of economic security"

Webinar series: “Staying in dialogue with China”, 2024 edition

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WEBINAR SERIES 2024

«STAYING IN DIALOGUE WITH CHINA»

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5th April, 2024
9-945am CET | 3-345pm CST
Economic Transition and Industrial Upgrading

WANG Yong, Academic Deputy Dean of the Institute of New Structural Economics, Peking University

11 September 2024
9-945am CET | 3-345pm CST
Social Rebalancing and Market Governance

LI Shi, Dean of Institute for Common Prosperity and Development, Zhejiang University

15th May 2024
9-945am CET | 3-345pm CST
Market-oriented Reforms

LU Feng, Emeritus Professor of Economics and former Deputy Dean of the National School of Development, Peking University

23rd October, 2024
9-945am CET | 3-345pm CST
Economic Globalization

YU Miaojie, President and University Chair Professor of Liaoning University, and Liberal-Art Chair Professor of Peking University

19th June 2024
9-945am CET | 3-345pm CST
Economic Security

WANG Zhengxu, Professor at Department of Political Science, School of Public Affairs, Zhejiang University

xx xxxx 2024
9-945am CET | 3-345pm CST
‘Domestic Demand System’

HUANG Yiping, Sinar Mas Chair Professor of Finance/Economics, Dean National School of Development, Peking University

Host and moderator
Markus HERRMANN CHEN
Co-Founder and Managing Director, China Macro Group (CMG)

CET: Central European Time | CST: China Standard Time

Cooperation partners

CEIBS
European Chamber 中国欧盟商会
SWISS CHINESE CHAMBER OF COMMERCE
DCBF DANISH-CHINESE BUSINESS FORUM
EU-China Business Association 欧盟中国贸易协会
CHINAFORUM BAYERN 巴伐利亚中德经济文化协会
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stars FOR LEADERS OF THE NEXT GENERATION

WEF Horizon Scan example: Corporate strategy-making in China, six building blocks

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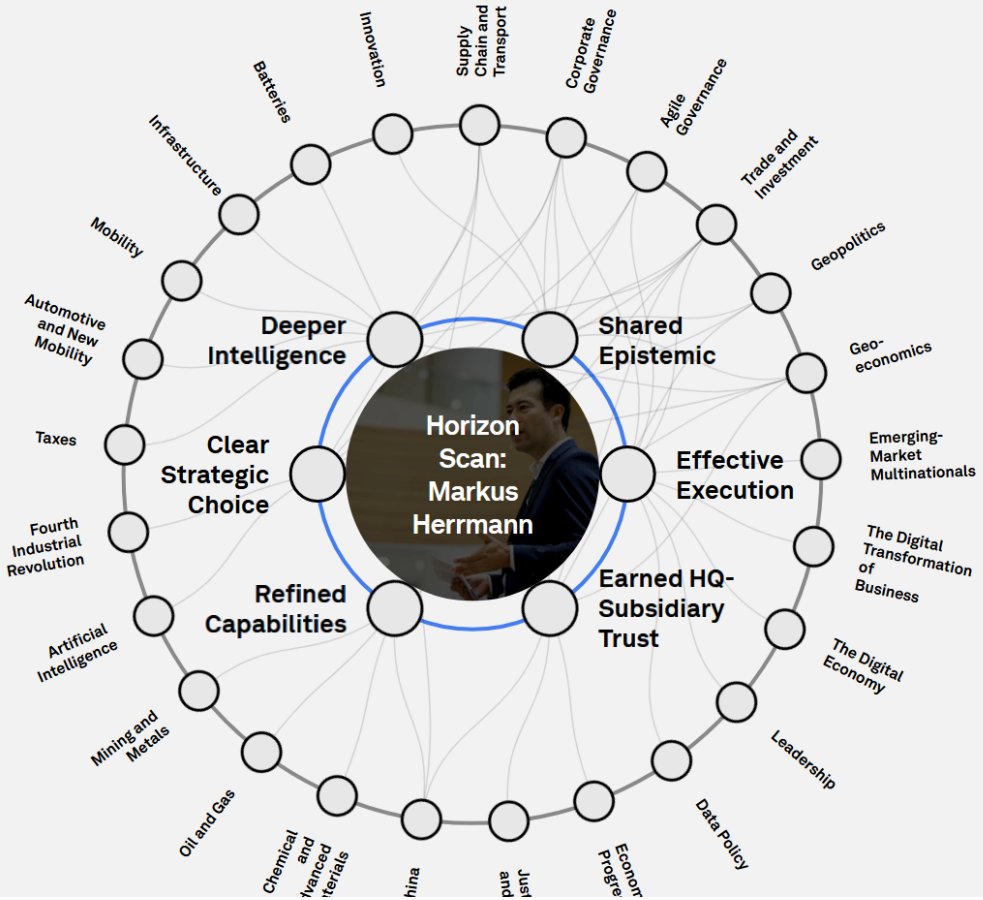

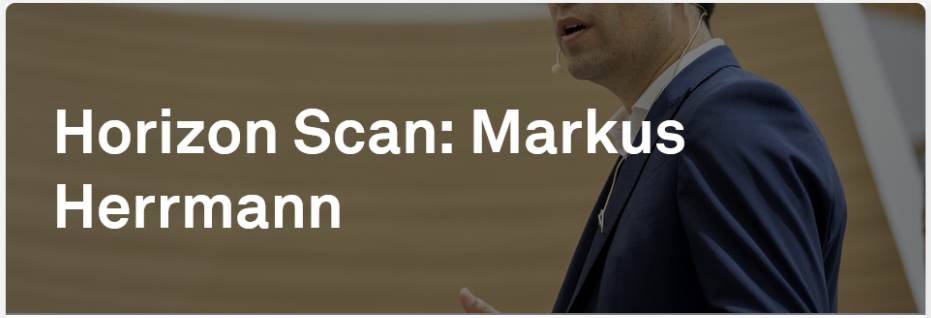

Foreign businesses should be able to approach corporate strategy-making in the rapidly evolving, competitive Chinese market by factoring in domestic policy, geo-economic forces, and geopolitics. Some tried-and-tested strategies have emerged. They

Read more

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Agenda

1	**Recap: China's political and economic system**	**10'**
2	**China after the 20th Party Congress – economy, politics and reforms**	**25'**
	• China's "strategic shift" with the 14th FYP (2021-2025) • "Third Plenum" (July 2024) and key economic reform priorities • Post-Covid economic performance	
3	**Select geopolitical factors: "Taiwan issue" and Switzerland's China strategy**	**10'**

Discussion / Q&A

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	Discussion / Q&A	

<u>Ideology</u>: the (new) CCP constitution shows CCP's self-understanding, socialist mission and communist vision

CONSTITUTION OF THE COMMUNIST PARTY OF CHINA

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

<u>General program</u>:
*"The Communist Party of China is **the vanguard of the Chinese working class, the Chinese people, and the Chinese nation**. It is the leadership core for the **cause of socialism with Chinese characteristics** and represents the developmental demands of China's advanced productive forces, the orientation for China's advanced culture, and the fundamental interests of the greatest possible majority of the Chinese people. The Party's **highest ideal and ultimate goal is the realization of communism**."*

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

*"The Communist Party of China uses Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, the Theory of Three Represents, the Scientific Outlook on Development, **<u>and Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era</u>** as its guides to action."*

Source: http://www.xinhuanet.com/english/download/Constitution_of_the_Communist_Party_of_China.pdf

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

CCP Constitution
(2017)

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

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

Chapter I General Principles

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

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

Added

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

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

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

Posted: November-21-2019 Adjust font size:

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

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

Source: http://www.npc.gov.cn/zgrdw/englishnpc/Constitution/node_2825.htm

The "party-state": high-level synoptic view of China's party-state system – after the 2023 NPC

Party / CCP

National Party Congress
(ca. 2300 delegates)

Central Committee
(«CC») (205 members)

Politburo (24) + **Standing Committee** (7)

Central Commission for Discipline Inspection (CCDI / 133)

Central Military Commission

Central Institution Coordination Institutions for decision-making
(w/o regular offices) (党中央决策议事协调机构)

In total, ca. **35 institutions**:

- **Central Financial Commission**
- **Central Science and Technology Commission**
- Central Financial and Economic Affairs Commission
- Central Cyberspace Affairs Commission
- HK and MAC Work Leading Group **(regular office set up after the 2023 NPC)**
- Central Foreign Affairs Commission
- Comprehensively Deepening Reforms Commission
- Central TW Leading Group
- Central Institution Organization Commission
- Propaganda Work Leading Group
- Central Education Work Leading Group
- Central Rule of Law Commission
- …

"Coordination institutions" encompass different types such as Leading Small Groups (LSG) or Commissions, key role is to provide strategic policy directions and coordination to guide state bureaucracy

Central organs of the CCP

- **Social Work Department**
- Political/Legal Commission
- General office
- Propaganda Department
- Liaison Department
- United Front Department
- Organization Department

Other organizations under CC

- Central Party School
- Publications (e.g. People's Daily)
- …

Institutions Supervised by CC

- ACFTU
- ACFIC
- …
- CAST
- ACJA

CCP's organs covering specific industries/areas

- **Central Financial Work Commission**
- Central HK Work Commission
- Central MAC Work Commission
- Institutional Work Commission

Chinese People's Political Consultative Conference (CPPCC/中国人民政治协商会议), where 8 democratic parties, non-partisan democrats, people's groups, ethnic reps, TW/HK/MAC reps and overseas Chinese provide **suggestions** to CCP – ca. 2200 members

State

National People's Congress
(ca. 3000 delegates)
+ Standing Committee (175 delegates)

President of PRC

State Council
(Inner Cabinet: 1 Premier, 4 Vice-Premiers, 5 State Councilors)

Directly under State Council

Outer Cabinet – 26 ministry-level bodies (国务院组成部门), e.g., NDRC, PBOC, MCA, MOFCOM, MEE

7 ministry-level organizations (国务院直属机关) e.g. NFRA, SAMR

6 ministry-level institutions (国务事业单位) e.g. CAS, CASS

1 ministry-level special agency (国务院直属特设构): SASAC

Ministries' local departments and bureaus can be vertically managed by ministries (垂直管理) or co-managed with local governments (双重管理)

22 provinces, 5 autonomous regions and 4 direct-administered municipality

17 sub-ministry-level institutions under ministry-level agencies (部属机构) e.g. National Energy Administration under NDRC

7 sub-ministry-level organization e.g. NBS

1 sub-ministry-level institution: China Meteorological Administration

Coordination Bodies (e.g., LSG Poverty Reduction)

China's Supreme People's Procuratorate

The Supreme People's Court

Legend: **Newly set up after the 2023 NPC** | **Serve both as Party organ and state organ**

China's economic system: two key constitutional norms as conceptual basis – with FIEs treated separately

Constitution as amended on 11th March 2018

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Constitution of the People's Republic of China

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

Constitution of the People's Republic of China

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

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

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

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

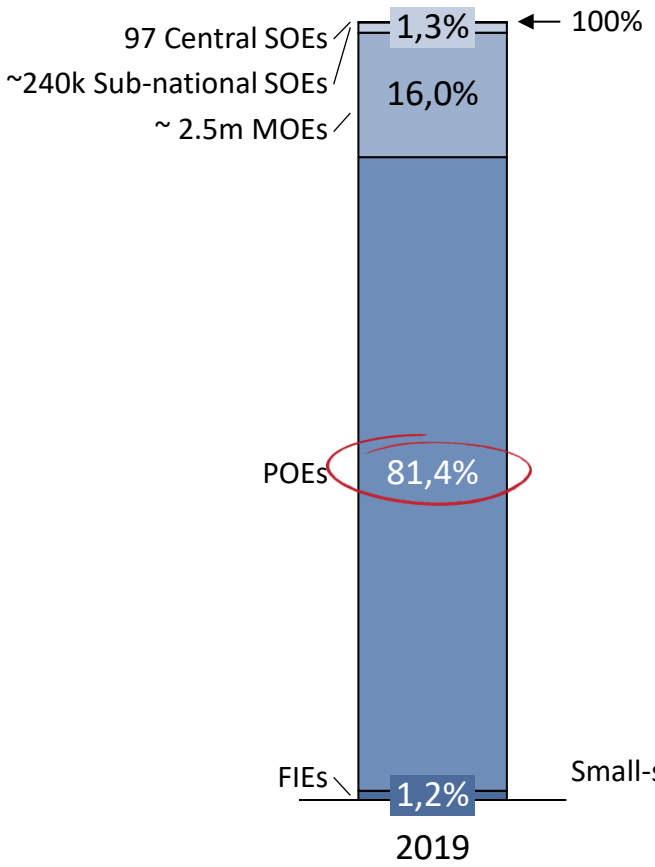
Article 18 The People's Republic of China permits **foreign enterprises** and other economic organizations or individuals to invest in China and to enter into various forms of economic cooperation with Chinese enterprises or other economic organizations in accordance with the provisions of the laws of the People's Republic of China.

All foreign enterprises, other foreign economic organizations as well as Chinese-foreign joint ventures within Chinese territory must abide by the laws of the People's Republic of China. Their lawful rights and interests are protected by the laws of the People's Republic of China.

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

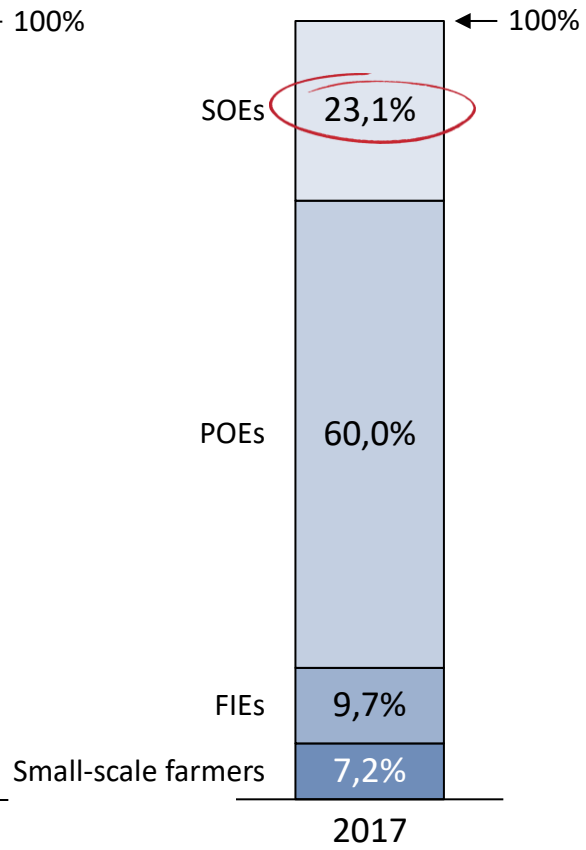
Most companies today are privately owned…

Registered companies (2019)



… but state directly controls 1/4 of GDP

Contribution to GDP (2017)



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

Company types and examples

Centrally controlled SOEs

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

Sub-national level SOEs

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

Mixed-ownership enterprises (MOEs)

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

Privately-owned enterprises (POEs)

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

Foreign invested enterprises (FIEs)

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

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

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- Post-Covid economic performance

3 Select geopolitical factors: "Taiwan issue" and Switzerland's China strategy 10'

Discussion / Q&A

Key factors influencing 14th FYP drafting and lessons from Covid pandemic prepare ground for "strategic shift"

Key contextual factors in 2020

Geopolitics

- «US containment and suppression as a big threat»

State of China's development

- 1st centennial goal
- Development challenges

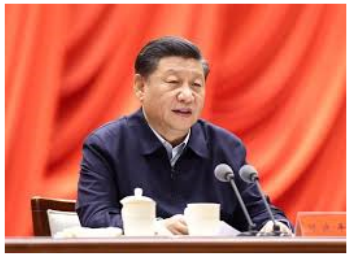
19th Party Congress

- "Change of principal contradiction in society"
- "New era" (= state/issue)
- High-Quality-Development (= solution)

Governance

- "Centralized and unified leadership" (集中统一领导)
- Abolition of constitutional term limit (2018)

Reflections after initial containment of pandemic



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

Doubling down

- "Super-sized market"
- "Complete industrial system" (完备的产业体系)
- "Trump card" tech/industry (as deterrence to de-coupling)

Security needs

- Data, energy, food, supply chains, military capabilities

'Self-reliance'

- Addressing "bottleneck technologies"
- "Secure industrial and supply chains"
- "Self-circulation" (自我循环), in extreme cases

China's 14th Five-Year-Plan is seen as of historic importance and 'strategic shift' by CCP

中共中央党校
Party School of the Central Committee of C.P.C

LI Junru
Former Vice-President of the Central Party School, in an interview with China News Service's "China focus face to face" (中国焦点面对面) on 26th October 2020

*"The core of the [14th Five-year] plan is to realize the **biggest strategic shift** since the Third Plenary Session of the 11th Central Committee [in 1978] and the establishment of a market economy system. [...]*

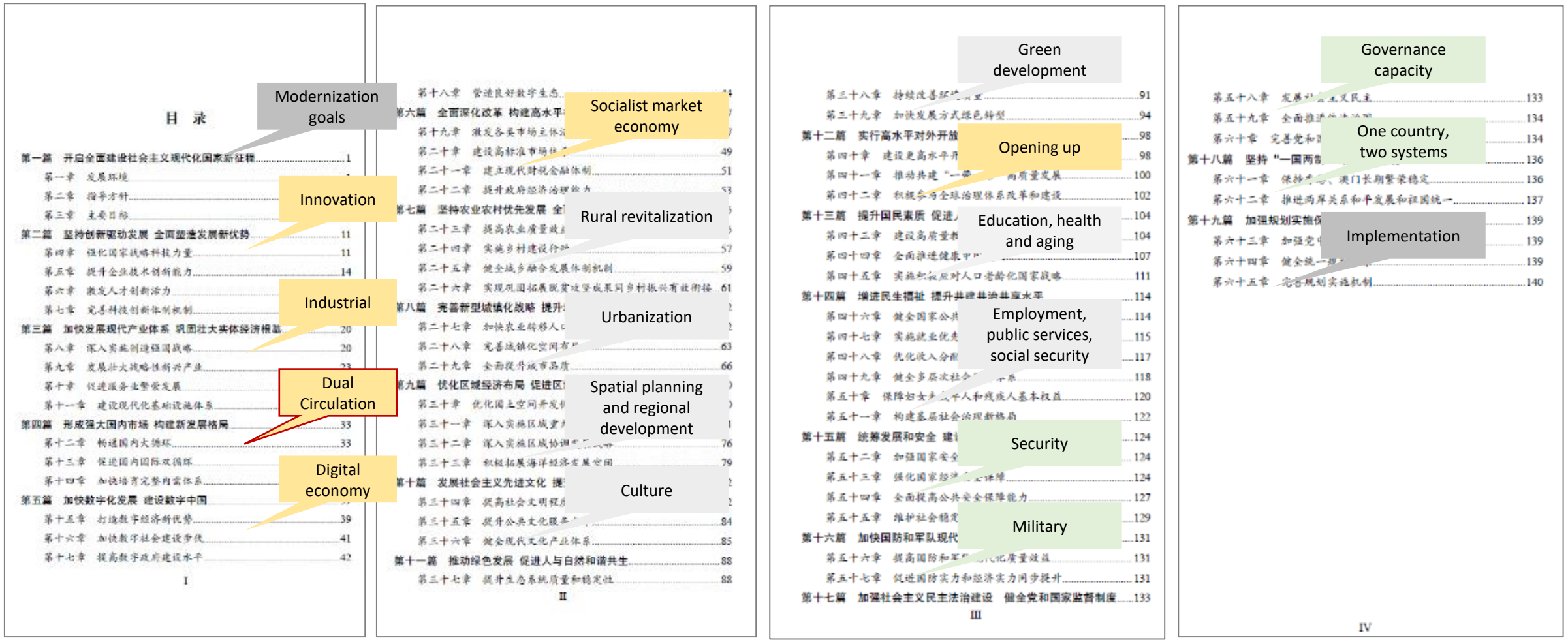
*Now China clearly wants to promote the transformation of the economy from high-speed growth to high-quality development in accordance with the **new development concept**.*

At the same time, the entire economic layout is a new development pattern with internal circulation as the main body and internal and external circulation reinforcing each other.. This pattern is formulated based on the major changes unseen in a century and the needs of the great rejuvenation of the Chinese nation."

*"规划核心要义就是实现(十一届)三中全会以来、建立市场经济体制以来**最大的一个战略转移[...]** 现在中国明确要按照**新发展理念**推动经济从高速增长到高质量发展转变。与此同时,整个经济布局是要以内循环为主体、内外循环相互促进的新发展格局。"*

Source: http://m.cnwest.com/tianxia/a/2020/10/25/19215890.html

14th Five-Year-Plan: deviating from prior trajectories – shaped by geopolitics, pandemic and 1st centennial goal



Economic policy | **Social policy** | **Security/governance** | **FYP goals/governance**

14th FYP: Dual Circulation at the core of 14th FYP's 'strategic shift' – with six strategic policy pillars

Chinese policy view: Dual Circulation

Ultimate goal

Build China into a modernised socialist country and realise rejuvenation of Chinese nation
全面建设社会主义现代化国家，实现中华民族伟大复兴

How to reach the goal

Pursue High-Quality-Development with the "new development pattern"
构建新发展格局，推动高质量发展

How to pursue High-Quality-Development

«Dual Circulation»

Domestic economic cycle plays a leading role
以国内大循环为主体

International economic cycle as extensions & supplement 国内国际相互促进

1. **Cultivate comprehensive domestic demand**
培育完整内需体系
2. **Coordinate regional and urban-rural development**
区域-城乡协调发展
3. **Build modernised industrial system**
建设现代化产业体系
4. **Pursue "common prosperity"**
推进共同富裕
5. **Coordinate development and security**
统筹发展与安全
6. **Pursue high-level opening - up**
高水平对外开放

Deep-dive chosen due to higher attention among FIEs

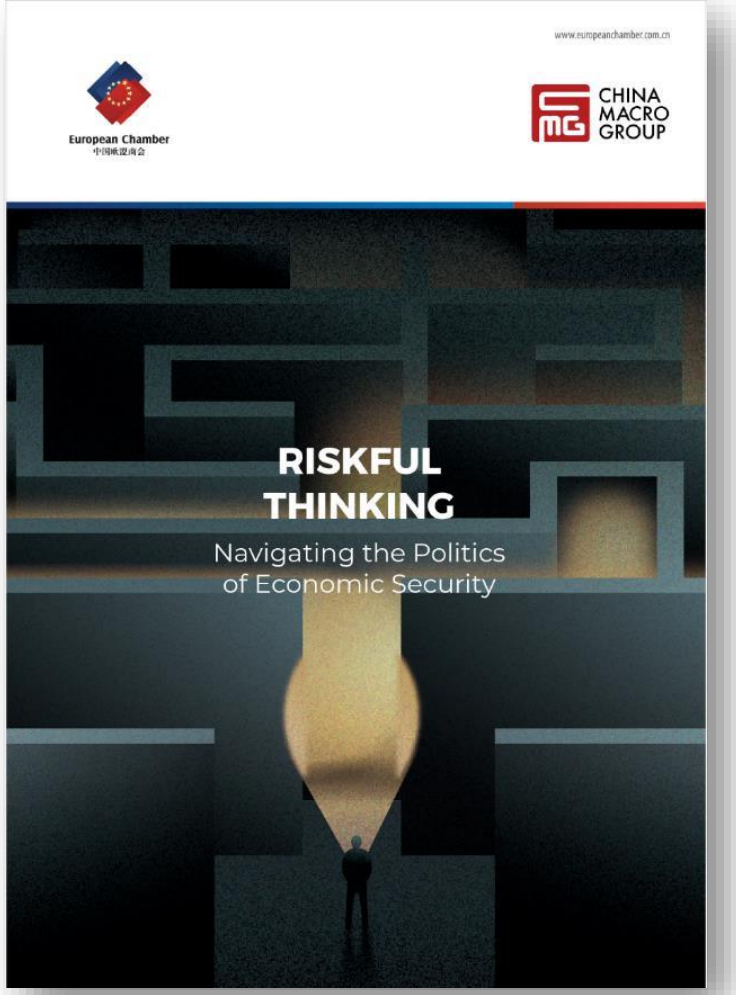
Political economy view: China's pursuit of 'high quality development' taking place amid 6 structural transitions

Key structural transitions	Key policy goals	Key issues	Key policies
Economic transition and industrial upgrading	• Transition to innovation-based economy • Climb industrial value chain • Digitalization and decarbonization	• Service sector contribution to GDP low • Manufacturing struggling at mid-end products, low industrial value-added	• *Made-in-China 2025* • *Opinions on High-quality Development of Service Industry 2019* • *14th FYP 2021 Ch. 8, 10.*
Market-oriented reforms and market governance	• Institutional transition, factor liberalization, SOE reform and "SSSR" • Socialist market governance incl. anti-monopoly, / 'social credit'	• Low TFP • Lower efficiency of state capital • Monopolies and overcapacity • "Disorderly expansion of capital"	• *Building Market-Oriented System for Allocation of Factors 2020* • *14th FYP 2021 Ch. 19-22.*
Economic globalization	• Integration into global flow of goods, services, capital, talent and ideas • Continued opening-up	• Comparatively weak trade of service • Comparatively low outbound FDI stock • Geopolitics and decoupling policies	• *14th FYP 2021 Ch. 40* • *Opinion on Increasing Efforts to Attract Foreign Investment 2023*
"Domestic demand system"	• Consumption-boosting policies • Rebalancing of public investments • Business environment policy	• Low consumption share to GDP • Demographic shift to aging population • Imperfect social security system	• *14th FYP 2021 Ch. 12-14.* • *Strategic Plan for Fully Expanding Domestic Demand 2022*
Social rebalancing	• Equality and poverty reduction • Social fairness and protection • Balanced regional development	• Inequality: top 1% holds 30% of wealth • Vulnerability of social groups (e.g. youth)	• *14th FYP 2021 Ch. 23-32.*
Deep-dive ***Economic security / "de-risking"***	• "Coordinate development and security"	• Import dependencies and perceived supply chain risks • China's weaker geoeconomic power	• *14th FYP 2021 Ch. 41-42, 52-53*

Longer-term transitions | *Trade-off / rebalancing processes*

China moved from linear economic development model of reform and opening up under Deng to dealing with strategic trade-offs

EUCCC-CMG report “Riskful Thinking – Navigating the Politics of Economic Security”



Download report here

Security policy: development and security dialectically linked – heightened risk perception affecting both

Risks (风险)

Development (发展)

- **"Basic party line"** *(1978/13th PC, Deng)*
- **"Scientific Outlook on Development"** *(2003, Hu)*
- **"High-Quality-Development"** *(2017, Xi)*

"Development is guarantee for security"

"Security is prerequisite of development"

Security (安全)

- **Single security concepts**
- **"Holistic view of national security"** *(19th PC)*
- **"Coordinate development & security"** *(14FYP)*

China's "de-risking": 6 key measure types observed as part of China's risk management policy today

	1 Self-reliance (自立自强/自主可控)	2 Key/core tech breakthroughs (突破/攻关)	3 Securing external supply	4 'Trump cards' (杀手锏)	5 Sectoral governance (bio/cyber)	6 Retaliatory capacity
Managed "risk"	**Import dependencies**	**China's tech bottlenecks**	**Import dependencies**	**Western tech decoupling** (defensively)	**Weaponisation or abuse** of sensitive tech	**Inability to retaliate and deter**
Scope	**Critical industrial inputs**	**Tech**	**Resources** (energy, food, critical minerals)	**Tech** (mature vs. emerging strategic tech)	**Tech**	**Foreign influence and pressure**
Key measures	• **Supply ecosystem pilots (cf. example)** • **'Hidden champions' (cf. example)** • **Storage capacity**	• **'New system for mobilizing resources nationwide',** e.g. special R&D projects or R&D value-chain coordination	• **International supply chain cooperation,** e.g. via the BRI • **SOE-led FDI for e.g. critical minerals** • **Trade policy**	• **Mature:** new energy, HSR, communication / electrical equipment • **Emerging:** quantum, AI and gene tech	• **Regulating data and esp. cross-border data transfer** • **Restricting FIEs in some sensitive areas**	• **Export Control Law** • **Anti-Foreign Sanctions Law** • **Foreign Relations Law** • **Anti-Espionage Law**
Risk-management approach	**Supply chain security via 'onshoring'**	**Accelerated indigenous catching-up**	**Import diversification and going out**	**Retain/create foreign dependencies on China**	**Market governance**	**Legal deterrence toolbox**
Impacts on European business	**Incentivized localization of FIEs' supply chain**	**Substitution of foreign tech by Chinese tech**	**Diversification need by Chinese customers**	**Potential dependency on select Chinese tech**	**Higher compliance cost in using sensitive tech**	**Higher exposure to geopolitical risks**

‘Self-reliance’ example: China’s building shorter supply chains around industrial cities to enhance stability

MIIT building ‘supply-chain ecosystem’ in 12 industrial cities

首批产业链供应链生态建设试点城市建议名单公示

发布时间：2022-09-15 18:36　来源：产业政策与法规司

为加快推进产业链供应链生态体系建设，经地方工业和信息化主管部门推荐、形式审查和专家评审等环节，拟确定杭州等12个城市入选首批产业链供应链生态体系建设试点城市建议名单。现予以公示，公示时间为2022年9月16日－9月22日。如有异议，请于公示期内将意见以书面形式反馈至工业和信息化部（产业政策与法规司）。

序号	城市
1	杭州
2	武汉
3	成都
4	宁德
5	南通
6	潍坊
7	合肥
8	株洲
9	广州
10	深圳
11	包头
12	齐齐哈尔

List of 12 pilot cities building “industrial/supply-chain ecosystem (产业链供应链生态)”, MIIT, Sep 2022

- Explicit policy goal of **enhancing supply-chain stability**
- Each pilot city building a **government-led collaborative network**
- Goal is to concentrate suppliers and finished good manufacturers within a shorter geographical distance

Local policy implementation: Nantong

Nantong government positions ship-making and marine engineering as industrial pillar of Nantong

- **Specialized government working groups** set-up, coordinating collaboration among enterprises along ship-making supply chain
- Coordinated by government, key firms like CM Industry (SOE) and Kawasaki Heavy Industry (FIE in JV), together with hundreds of suppliers, form a **supply-chain alliance** for ship-making and marine equipment manufacturing

Source: MIIT, People’s Daily, Nantong News Release, Nantong Government

‘Self-reliance’ example: Guangzhou Municipality as one of 12 pilot cities to build shorter supply chains

Policy implementation / measure type: “supply chain ecosystem pilot program” (31st Oct. 2022)

“First batch nationwide! Guangzhou has been selected as a pilot city for the construction of a national industrial and supply chain ecosystem”

Exemplary measures

*“Forming an ecological development pattern of **collaborative and symbiotic cooperation** among leading enterprises, supporting enterprises, higher education institutions, research institutes, third-party platforms, financial institutions, etc”*

形成龙头企业、配套企业、高等院校、科研院所、第三方平台、金融机构等协同联动、竞合共生的生态发展格局

*“Deeply implement a dual chain "chain leader system" with **14 local officials** as the "chain leaders" and 118 **leading enterprises as the "chain leaders“”***

深入实施以14位市领导为“链长”和以118家龙头企业为“链主”的双链式“链长制”

‘Self-reliance’ example: China’s SME policy system aims to fill critical supply chain gaps

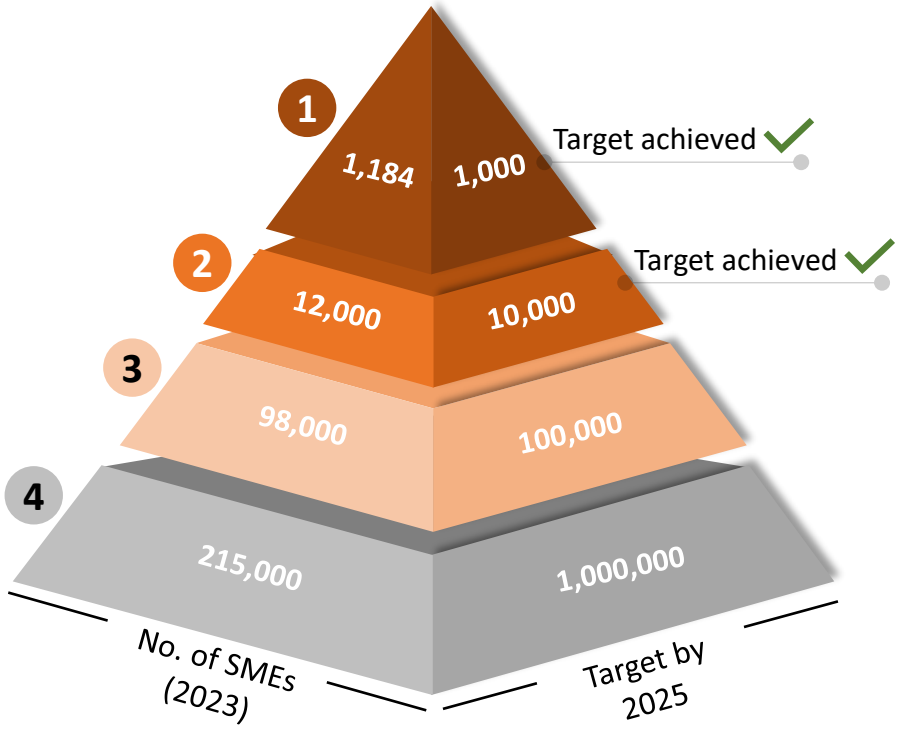
In the pyramidal system, SME certificates last three years

1 Manufacturing champions (制造业单项冠军)

- **Experience and market position:** +10 years‘ experience in manufacturing sector, market share of single-product among top 3 globally
- **Economic performance:** avg. annual revenue 400 M RMB
- **Innovation:** high-level R&D institution and core IPR
- **Preference is given to previous holders of “Little Giants” certificate**

2 Little giants (专精特新“小巨人”企业)

- **Experience and market position:** SME status (<1000 employees/annual revenue <400 M RMB), >3 yrs experience in a specific market, products are in key manufacturing industries*
- **Economic performance: leading** products >10% domestic market share, 5% growth last 2 years; asset liability ratio <70%
- **Innovation:** high R&D intensity, possess IPR



3 Specialized SMEs (专精特新中小企业)

- **Experience and market position:** >2 years engagement in a niche market
- **Economic performance:** income >10 M RMB, or if <10 M RMB, new equity >20 M RMB in past 2 years
- **Innovation:** R&D investment >1 M RMB
- **Relevant score in certain evaluation indicators:** e.g. relevant sector, R&D intensity, possess IPR

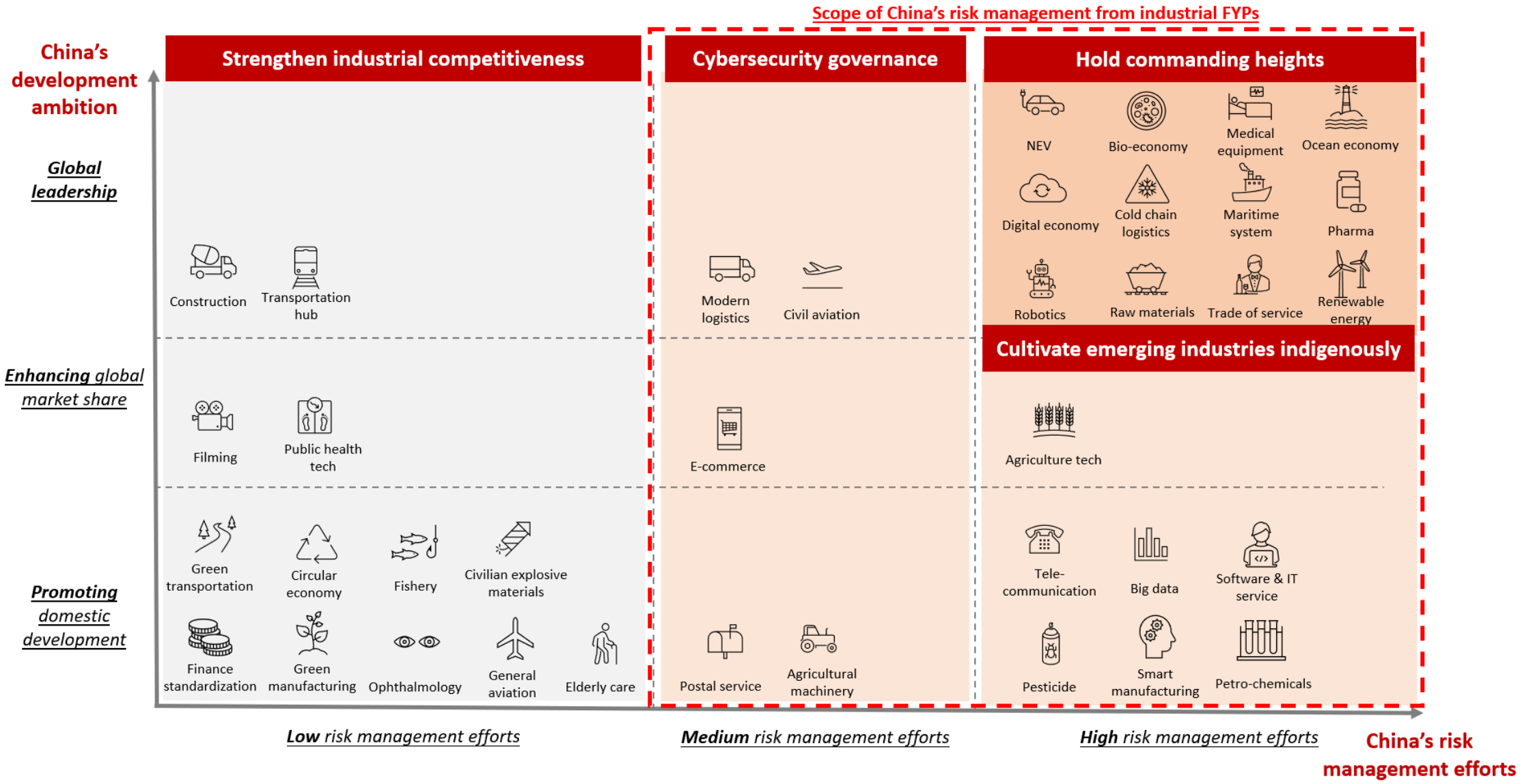
4 Innovative SMEs (创新型中小企业)

- **Reach relevant score in evaluation indicators:** 1) **Number of IPRs** of leading product (1 or more Class IP IPR) 2) **>5% ratio of R&D expenses** cf. total revenue 3) **> 15% growth rate** of main business income 4) **<15% asset-liability ratio** 5) Product belongs to “strategic” sectors e.g. IT, high-end equipment manufacturing, NEVs

Key industries include, among the others, R&D information systems, core manufacturing components, key software,

“Manufacturing Champions“, “Little Giants” and “Specialized SMEs” policy programs all with risk management function

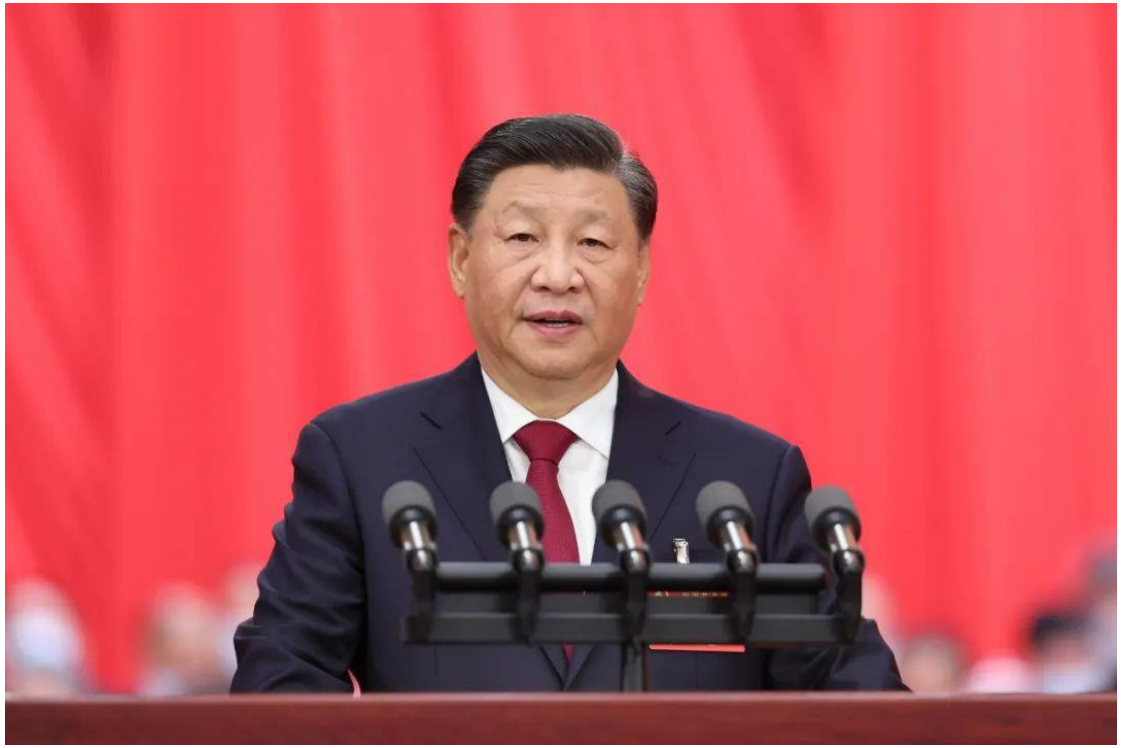
Sector view: China's industrial ambitions vs. national security concerns across 41 Sector Five-Year-Plans



"De-risking": all trade blocs adopt security-driven policies, China with strongest focus on supply chain security

Key IR concept(s)	• **"Lead the reform of global governance"**	• **"Out-competing our rivals to shape the international order"** • **Democracies against autocracies**	• **Strategic autonomy**
Economic security	• "Coordinate development and security"	• National security / national security strategy	• "De-risking" / economic security strategy (ESS)
Industrial competitiveness	• Build a modern industrial system • Hold "commanding heights" (in GVCs)	• Maintain strong industrial base • Control of strategic sectors	• Maintain strong and sovereign industrial base
Tech leadership	• Indigenous innovation • Overcome "bottleneck technologies" • Leadership in emerging tech	• Foundational technologies ("maintain as large of a lead as possible") • Competitive edge in strategic technologies	• Maintain and grow technological edge • Lead the twin transitions
Supply chain security	• Strengthen "self-reliance" • Ensure "self-circulation" in extreme case • One alternative source for important goods	• Resilient supply chains	• Resilient supply chains • Address critical dependencies
Coercive logic	• "Trump cards" *(defensively)*	• Denying China tech access / "de-coupling"	• n/a
Geoeconomic structures and influence	• Third-market connectivity / access (via BRI) • Asia-Pacific economic integration (RCEP)	• "Techno-industrial base with like-minded" • USD dominance • Indo-Pacific (e.g. IPEF)	• "Make use of our massive economic assets in a much more strategic way"
Key features	***Industrial-leadership + self-reliance***	***Pre-empt China + global (order) leadership***	***Diversify trade + (open) strategic autonomy***

Add-on: 20th Party Congress with policy continuity – key changes strengthen China's political "self-reference"



Xi presents the political report on 16th Oct. 2022

«The present world is undergoing changes unseen in a century»
(当今世界正在经历百年未有之大变局)

6 key changes of political report vs. 14th FYP identified

«Chinese-style modernization»
(中国式现代化)

«Whole process democracy»
(全过程民主)

Party-building – re-injecting "purpose"
(不忘初心、牢记使命)

Cultural confidence and "self-reliance"
(文化自信自强)

Using "force" as last resort
(不承诺放弃使用武力)

Economic realism

Deep-dive: 'Chinese style modernization' (中国式现代化) as new overarching theory for China's development

New "central task"…

*«From this day forward, the **central task** of the Communist Party of China will be to lead the Chinese people of all ethnic groups in a concerted effort to realize the Second Centenary Goal of building China into a **great modern socialist country** in all respects and to advance the rejuvenation of the Chinese nation on all fronts through a **Chinese path to modernization**»*

… official key elements of the Chinese path to modernization

Socialist ideology	• "**Socialist modernization**" under the "**leadership of the Communist Party of China**"
Large population as condition	• «**Unparalleled difficulty and complexity**» with a population of 1.4 billion people • Requires «**unique methods**» to development
Common prosperity	• Achieve «social fairness and justice, **prosperity to all**» • «**Prevent polarization**»
Material and cultural-ethical advancement	• «**Material want is not socialism**, nor is cultural impoverishment» • «Develop **advanced socialist culture**, foster strong ideals and convictions, carrying forward China's cultural heritage»
Harmony between humanity and nature	• Commitment to **sustainable development**, resource conservation, environmental protection
Peaceful development	• «**China will not tread old path of war**, colonization, and plunder taken by some countries» • «Peace, development, cooperation, and **win-win**»
Model for humanity	• "Chinese modernization **offers humanity a new choice** for achieving modernization"

Comment

- **This is key innovation** coming out of the Political Report
- This theory **combines various disjointed policy priorities** under a new overarching policy «program» (e.g. common prosperity, high-quality development)
- Indicates that **China will continue on its distinctly own path** to modernization
- China sees its approach as **applicable to third-countries** that are seeking alternatives to Western development models
- Intends to bolster China's **soft power** esp. via better explaining how China's development relates to its specific circumstances and premises

Source: Political report to the 20th National Congress, October 16, 2022

With this new theory, the party formalizes its (conceptual) emancipation from Western developmental models and concepts

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- **"Third Plenum" (July 2024) and key economic reform priorities**
- Post-Covid economic performance

3 Select geopolitical factors: "Taiwan issue" and Switzerland's China strategy 10'

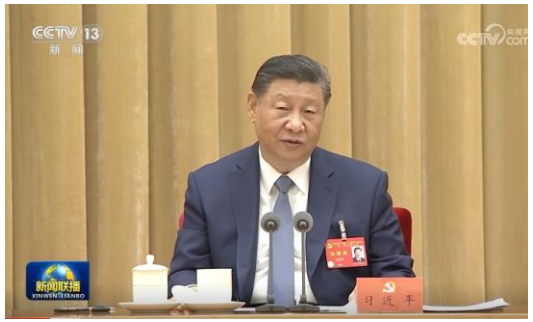
Discussion / Q&A

Based on CCTV and government reports

Key events of 4-days lasting 'Third Plenum' – followed by press conference and Politburo meeting

Xi Jinping, followed by Li Qiang, Zhao Leji, Wang Huning, etc. entered the **Opening Ceremony**

199 CC members, **165** CC alternate members, and **around 140** other party members attended the Plenum



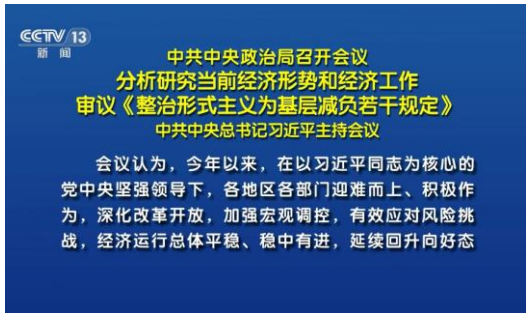
Xi Jinping made a speech on **"the explanation"** (说明) of the draft of "**the resolution**" (决定)

Attendees were **divided into 10 groups** to discuss "the resolution", give their opinions and suggestions

Attendees of 'Third Plenum' **formally passed** the final version of "the resolution" (决定) by raising hands

Vote to **accept** Qin Gang's resignation, **confirm** to expel 3 PLA generals Li Shangfu, Li Yuchao, Sun Jinming

Press Conference of CC post-'Third Plenum' on July 19th by six minister-level policy makers



Politburo meeting on July 30th to **plan 2nd half year 2024 economic activities**, guided by 'Third Plenum'

Note: CC: Central Committee

Based on keyword analysis

Formal analysis: 'Third Plenum' doubles use of 'mechanisms/procedures' showing focus on implementation

Chinese reforms address three governance levels

> From **concept** to specific **approach** >

Fundamental system / rule (制度) 1

- Broadest governance term used in Chinese policymaking, focusing on abstract rules, principles and systems
  E.g. Socialist System (社会主义制度)

Organization / functional framework (体制) 2

- Refers to organizations or functional frameworks that operate within/under a 'fundamental system' or 'rule'
  E.g. Socialist Market Economy System (社会主义市场经济体制)

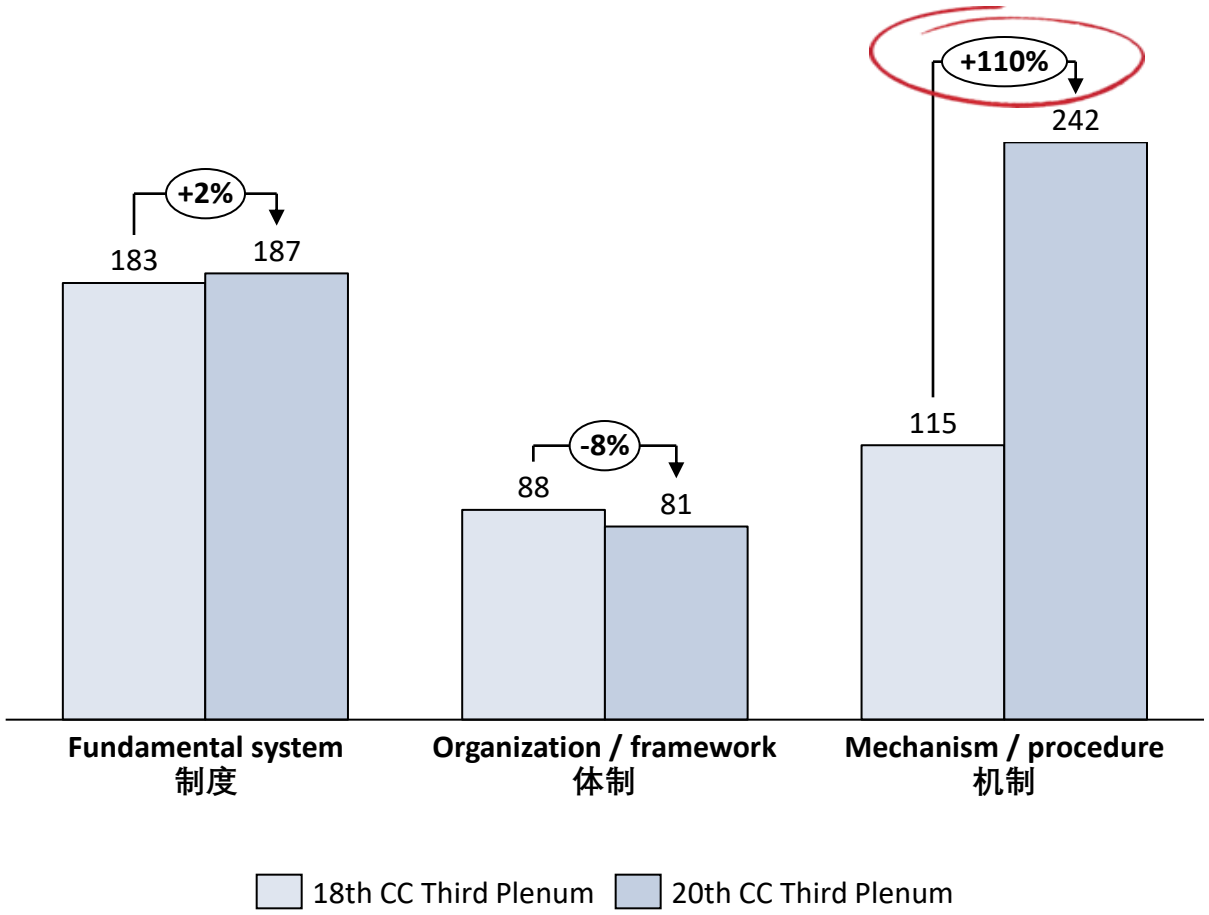
Mechanism / procedure (机制) 3

- Most granular governance level, focusing on functioning and effectiveness of organizations / functional frameworks
  E.g. Data Cross-border Flow Mechanism (数据跨境流动机制)

- Governance concept of '**system**' (体系) used inconsistently: sometimes narrowly and functionally (e.g., 民营企业信用评价体系, POE Credit Evaluation System) and sometimes more abstractly as a set of mechanisms / procedures (e.g., 国家治理体系, National Governance System)
- Thus, this governance concept is not considered in this analysis

Keyword frequency analysis of key Chinese governance terms

18th CC Third Plenum vs. 20th CC Third Plenum



However, the "decision"-text's (total of 603 sentences) policy substance are mostly 'reform measures' (改革举措), estimated to be >300

Based on bottom-up analysis

Policy analysis: compared to NPC 2024, 30 entirely new 'reform measures' in eight reform areas identified

'Third Plenum' addresses key reform areas with select entirely new reform measures — as compared to NPC 2024

Economic reforms		Cf. deep-dive 1 **Socialist market economy**	• Improve equal treatment between state-owned and private economy, esp. regarding access to factors of production, market access and legal protection • Defined more SOE responsibilities in innovation, industrial upgrading and national security
		Cf. deep-dive 2 **Innovation policy**	• Expanding innovative talent supply, e.g. via promoting international knowledge exchange • Effective policy coordination – vertically between central and local governments • Ensuring financing of innovation, e.g. via foreign VC/PEs
		Industrial policy	• Refined industrial upgrading blueprint: upgrade traditional industries (via standards), cultivate strategic emerging industries (via policy system), and build early leading position in future industries (via fundraising mechanism)
		Macro-economic governance	• Systemic policy design and effective policy coordination – horizontally among ministries • Improve financial capability and granting more financial autonomy for local governments
		Opening-up	• Proactive alignment (主动对接) with global economic standards • Unilateral opening-up to least developed economies • "Systemic trade policy making (贸易强国制度支撑和政策支持体系)"
Social and cultural reforms		**Urban-rural development and social security**	• Further equal treatment to rural immigrants, esp. for access to public service based on long-term residency • Measures to restore population growth, e.g. birth-giving subsidy and public childcare service
		Media governance	• More effective governance on all-media channels and (esp. online) public opinion
Security reforms		**Coordinate development and security**	• Ensuring China's security interest, mainly—supply-chain resilience, technological self-reliance, risk-responding mechanism for trade activities • Special focus on holistically coordinating supply chain of strategic minerals

Deep-dive 1: in pursuit of China's goals, 'Third Plenum' vows to treat different ownership forms more equally

Third Plenum reform priorities across three types of market entities

	State-owned enterprises	Privately-owned enterprises	Foreign-owned enterprises
Access to factors of production	• n/a	• Easier financing for POEs, e.g. lower borrowing cost	• Ensure national treatment for FIEs regarding access to factors of production
Market access	• Promote market-oriented reforms in competitive segments of sectors, e.g. in energy, railway, telecom and public utilities	• Remove market access barriers for POEs to e.g. infrastructure construction and other types of large public projects	• Shorten FDI negative list • Remove FDI restrictions in manufacturing sector • Gradually open market of finance, telco, healthcare…
Legal protection	• n/a	• *Private Economy Promotion Law* • Supervision on fee over-charging and overdue/late payments to POEs (by SOEs)	• Build a market-oriented, rule-based, international business environment • Ensure legal rights and interests of FIEs in China
Governance	• More effective evaluation of SOE performance incl. how SOEs contribute to national strategic goals	• POE credit evaluation • Guide POEs to improve self-governance, enhance compliance and risk control	• n/a
Function	• Direct state-owned capital to sectors of public interest, e.g. security and public service, plus to strategic emerging industries	• Allow POEs to lead major national S&T projects • Open public research resources and facilities to POEs	• Support FIE in cooperation along the supply chain

Red = new measure

CMG assessment

- The 2024 reform plan symbolically **gives up** the long-lasting **"main body position"** (主体地位) **of the public economy**, which is a political signal that China wants to **further raise the position of the private sector** and increase reliance of GDP growth on private economy
- **Equal treatment of all types of market entities** stressed broadly regarding access to factors of production, fair competition, and legal protection; more measures to improve overall business environment can be expected
- By making equal treatment, China wants to **take advantage of different market entities** and **promote synergies** among them; **SOEs, POEs and FIEs** shall all be included **in a unified framework to support China's overarching national interests**, most importantly in areas of technological breakthroughs, industrial upgrading and supply-chain resilience

Turn to pragmatism: China seeks more synergies among different market entities to better serve its strategic goals, esp. innovation

Calibration: 2024 presents the broadest reform package to date, dealing with all six structural transitions

Structural transitions	16th CC Third Plenum (2003)	18th CC Third Plenum (2013)	20th CC Third Plenum (2024)
Economic transition and industrial upgrading	• Enterprise-centered innovation system • Talent pool	• Innovation incentives, IP protection • Gov support to S&T development	• New-quality productive forces • SSSR, climb industrial value chain • Digitalization and decarbonization • Growth of service sector
Market-oriented reforms and market governance	• POE market access, property rights • SOE reform, open monopolistic sectors • Unified market, market of factors • Economic legal framework	• Property rights • SOE reform esp. "mixed ownership" • "Modern market system"	• High-level socialist market economy: *more equal public vs private economy, unified market, factor liberalization, improved governance, anti-monopoly*
Economic globalization	• Institutional framework for opening-up • Introduction of foreign tech and talents • Outbound investment support	• Relaxing FDI restrictions • Free-trade zones • Expanding in-land opening-up	• High-level opening-up • Alignment w/ global economic standards • Improve business environment for FIEs • Engage in global economic governance
Social rebalancing	• Fair and inclusive income distribution	• Transfer payment • Urban-rural integration • Well-structured income distribution	• Coordinated regional development • New urbanization and rural rejuvenation • "Common Prosperity" • New development model of real estate
'Domestic demand system'	• N/A	• N/A	• Domestic demand expansion • Long-term pro-consumption • Public investment as lever • Fertility support system
Economic security	• N/A	• N/A	• Coordinate development and security • Technological self-reliance • Supply-chain resilience

Core: market- and institutional reforms

Initial comprehensive reform

Full-scale reform efforts

Longer-term transitions | *Trade-off / rebalancing processes*

Size of harvey ball indicates progress since 2013

Weakest progress observed for 'domestic demand system' likely due to geoeconomic focus on industrial upgrading/security since 14FYP

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Big picture view: post-Covid economic recovery still in progress – with solid +5% in H1 2024, but worse Q2

China's quarterly GDP growth over the past 5 years and 2024 prospect

2019: "New normal"

- **"New normal"** (新常态) since 13th FYP: shrinking trade demand, excess capacity of low-end products, etc.
- "New normal" shifted China's focus from quantitative to qualitative growth
- GDP growth steadily slowed down to ~6+% since 2016

2020 & 2021: Pandemic shock and real estate

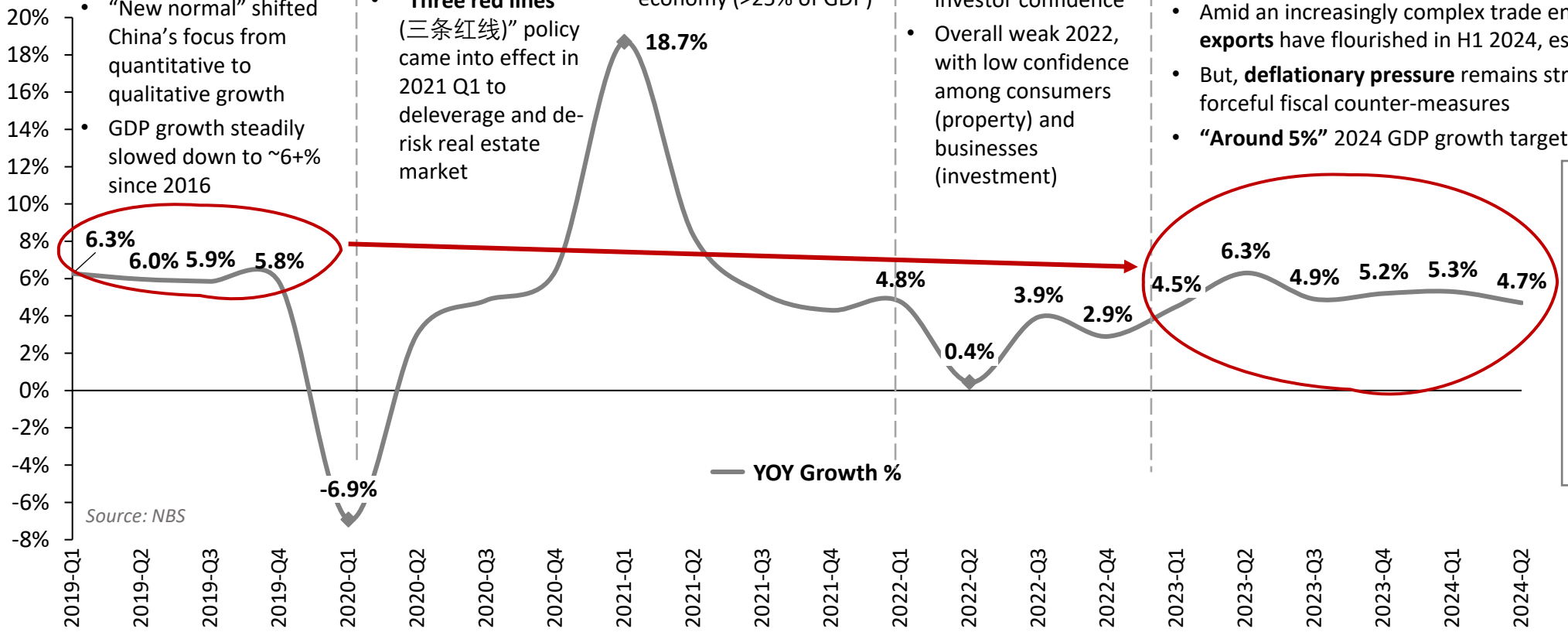
- **Covid-19** outbreak closed all business and resulted in negative growth in 2020 Q1
- **"Three red lines** (三条红线)" policy came into effect in 2021 Q1 to deleverage and de-risk real estate market
- …causing a series of defaults that spilled over into the real economy, given the importance of the sector for China's economy (>25% of GDP)

2022: "Zero-Covid"

- Strict **zero-Covid** esp. in Q2 in key cities like Shanghai distorted supply chains and hurt investor confidence
- Overall weak 2022, with low confidence among consumers (property) and businesses (investment)

2023/4: Post-Covid recovery

- In 2024, **real estate downturn** proving to be deeper than expected by many, preventing households from consuming (+3.4% growth in retail sales Jan-Aug 2024, with a decelerating trend)
- **Investments** – long a strong driver – only growing at +3.4% Jan-Aug 2024, dragged down most notably by real estate (-10.2% Jan-Jul)
- Amid an increasingly complex trade environment (overcapacity "issue"), **exports** have flourished in H1 2024, especially automotive (+18.9%)
- But, **deflationary pressure** remains strong, likely necessitating more forceful fiscal counter-measures
- **"Around 5%"** 2024 GDP growth target increasingly difficult to reach



	E2024 Annual %	Changed from
Nomura	4.5%	
JP	4.6%	
Citi	4.8%	5.0%
GS	4.9%	5.0%
UBS	4.6%	4.9%
Barclays	4.8%	5.0%

2024 China GDP growth projections by selected institutions (Aug 2024)

Real estate: a dominant force used to take up to 30% of GDP – driving various sectors along its value chain

Upstream		Real estate development		Downstream leveraging	
Land acquisition	Resource & material	Construction	Sales	After-sales consumption	Secondary transaction
~5% GDP contribution	5-10% GDP contribution	4-6% GDP contribution	1-3% GDP contribution	1-3% GDP contribution	~2% GDP contribution

Real estate developers — **2020 "3 red lines" drain (re-)financing**

- ~10,000 real estate developers (incl. ~900 SOEs and ~3800 FIEs)
- Highly leveraged with 15tn RMB debt, only 68/224 listed developers on stock market meet de-leveraging requirement of 2021 "three red lines"; POEs under most severe situations while most SOEs meet the requirement
- Policy: since 2022 financing permitted for property delivery; further relax on financing restrictions since H2 2023 incl. whitelist

Note: sectoral GDP contribution measured by real-estate-linked value-add 2017-2021

ROI ↑ ↓ *Financing*

Commercial banks
- High exposure: 30% loans to developers (land collateral)
- Policy: de-risk (NPLs), 2021 "three red lines"

Land revenue ↓ ↑ *Land*

Local governments
- 42.5% revenue from selling land in 2021
- Often via LGFVs (shadow banking)
- Policy: de-risk debt, lower dependence on land sale revenue

Construction input ↑ ↓ *Revenue*

Cement, steel, glass
- 100,000+ large-size suppliers of materials
- Strongly depends on demand from real estate: 35% cement, 40% steel and 60% glass goes to real estate in 2021
- Policy: de-overcapacity in production

Construction ↑ ↓ *Revenue*

Construction company
- ~8000 large-scale construction companies
- Strongly depends on real estate: 63% construction activities driven by real estate in 2020
- Policy: boost demand via public projects e.g. urban renovation

Revenue ↑ ↓ *Construction*

Local governments
- Policy: launch urban renovation projects

Acquisition ↑ ↓ *Sales*

Households
- Up to 80% of household wealth in real estate
- Policy: further released purchase limit in tier-2 and -1 cities; removed mortgage floor and largely lowered downpayment since 2024

Covid curbs demand

Mortgage ↑ ↓ *Amortization + interest*

Commercial banks
- Mortgage >35% downpayment
- Policy: relaxed credit issuance to both developers and households; allowed property owners' switch to cheaper loan

Households
- Policy: restore confidence e.g. secure jobs, increase incomes

Sales ↑ ↓ *Revenue*

Home appliance
- ~28,000 suppliers in 2021

Furniture
- ~250,000 suppliers in 2021

Decoration
- 100,000+ companies 2021

Policy: subsidize household consumption via e.g coupons, esp. for home appliance

Property owners
- 50% properties sales in 2018 not for owners' self-use
- Low rental yield
- Policy: cool down rental market via e.g. guided pricing

Rent ↑ ↓ *Housing*

Tenant
- High living cost due to soaring rent price

Rent ↓ ↑ *Housing*

Local governments
- Policy: building affordable housing

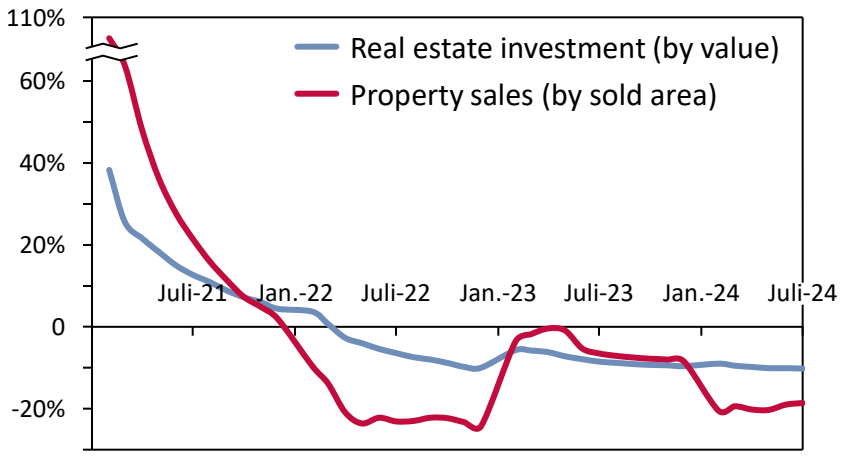
Asset bubble: Price to income ratios in Beijing/Shanghai/Shenzhen >40 vs London 22 vs New York 12 (Rogoff/Yang, 2020)

Policymaking deep-dive: evolving from restrictions to gradual relaxations, with a focus on demand stimulus

	Key events	Policy (signal) change: from restriction to relaxation
2016	CEWC 2016	• Newly raised "house is for living, not for speculation (房住不炒)"
2018	Politburo July meeting	• "Resolutely curb the hike of property price (坚决遏制房价上涨)" • "Maintain market order (维护市场秩序)"
2020	MOHURD PBOC announcement	• "Three red lines (三道红线)" policy, to restrict the financing of real estate developers with heavy debt burden—valid since Jan 2021
2021	CEWC 2021	• "Better satisfy reasonable demand for housing (更好满足合理购房需求)"—the earliest signal to gradually relax property sales and restore the market
2022	NPC 2022	• "Stabilize the land price, property price and market confidence (稳地价、稳房价、稳预期)", followed three LPR cuts in the year and relaxed purchase limit
	Politburo July meeting	• "Ensure the delivery of sold properties (保交楼)", followed by PBOC and CBIRC's "16-point plan (金融支持地产16条)" to finance targeted developers for delivery
2023	NPC 2023	• "Relieve leading developers from the risks" and stressed to stabilize market under the premise of sticking to "house is for living, not speculation"
	Politburo July meeting	• "Fundamental shift in supply-demand dynamic" (房地产供需关系重大变化) • Demand-side stimulus e.g. released purchase limit incl. for non-first-time buyer, lower downpayment ratio • Increasingly financing supply-side (e.g. property delivery, developer whitelist)
2024	NPC 2024	• Removed "house is for living, not speculation" • Strongest-ever demand stimulus e.g. relaxed purchase limit in tier-2 and -1 cities, largely lowered downpayment, removed mortgage floor, funding local gov to purchase properties, allowing switch to cheaper loans for homeowners

Outcome: market shrinking at slower pace

Monthly cumulative growth YOY of real estate investment and sales (since 2021)



- **Sharp slump** in both demand side (sales) and supply side (investment) **since** 2021 when **"three red lines"** policy was validated
- …the down pressure was **gradually curbed in early 2022**, after early signal of restoring the market
- After a package of measures was given to relax purchase limit and to finance developers for property delivery, property **investment and sales bounced back in Q4 2022 and Q1 2023**
- Investment got more stable since 2023, but **sales in slump again**, so the strong demand stimulus was introduced to bring back buyers
- Overall market **still in shrinkage, but in a slower pace**

Property market still in shrinkage despite policy efforts made so far, priority lies in reversing the shrinkage into a moderate growth

Agenda

1	Recap: China's political and economic system	10'
2	China after the 20th Party Congress – economy, politics and reforms	25'
	• China's "strategic shift" with the 14th FYP (2021-2025) • "Third Plenum" (July 2024) and key economic reform priorities • Post-Covid economic performance	
3	**Select geopolitical factors: "Taiwan issue" and Switzerland's China strategy**	**10'**
	Discussion / Q&A	

Key bilateral relations: geopolitical, economic and security issues driving US-CN/EU-CN relations – CH pragmatic

	US – CN	EU – CN	CH – CN
Strategic policy posture	*"US approach to China will be **competitive** when it should be, **collaborative** when it can be and **adversarial** when it must be"* *Antony Blinken (March 2021)* *"China is the only country with both the **intent** to reshape the international order and, increasingly, the economic, diplomatic, military, and technological **power** to do it. […] Even as President Putin's war continues, we will remain focused on the **most serious long-term challenge** to the international order – and that's posed by the People's Republic of China."* *Antony Blinken (May 2022)*	*"China is, simultaneously, in different policy areas, a **cooperation partner** with whom the EU has closely aligned objectives, a **negotiating partner** with whom the EU needs to find a balance of interests, an **economic competitor** in the pursuit of technological leadership, and a **systemic rival** promoting alternative models of governance."* EU Strategic Outlook on China (2019)	• ***Neutral**, "bloc free", and committed to dialogue* • ***Liberal** economic and international order, rule of law, basic rights of individuals and democracy as "Swiss core values"* • ***European states and the EU** itself often represent positions similar to those of Switzerland, and remain its **most important partner*** • *Coordination on China-related matters with **"like-minded partners"** on engagement with China* • *But: "**turning away from China"** neither beneficial to China's domestic situation, nor in Swiss interest* *China Strategy 2021-2024 (March 2021)*
Key trends in bilateral relations	• Stabilization and **"managed" competition** following "candid" Xi-Biden San Francisco meeting, but more **US decoupling**: e.g. Sec. Raimondo, new tariffs (e.g. 100% EVs), new OFDI screening, Tiktok ban etc. • More vocal worries about **Chinese "overcapacity"** (J. Yellen, A. Blinken) • US deepening **security partnerships** in Indo-Pacific (Japan, Philippines, Australia) • **PRC** seeing more **"negative factors"** in relationship, **suspending talks** on arms control and nuclear non-proliferation with US • Ahead of US elections, risk of more **frictions** in South China Sea given US-PHI mutual defense treaty	• After EU's Economic Security Strategy, **economic tensions on the rise** as EU making more use of its geoeconomic toolbox (e.g. FSR investigations, tariffs on CN EVs (final vote initially set for 25 Sept) • EU Council adopts revised EC recommendation to enhance **research security** • **Overcapacity** also by EU considered a serious issue (e.g. EU statement at 9th WTO TPR) that may force countries to resort to trade defense instruments • **EU approach** not punitive per se, targeting **non-level playing field** • **Active European diplomacy**, e.g. Scholz, Macron, Wang Wentao in Paris, Xi's tour (FR, HU, RS) showing importance of Europe for China	• Measured PRC protests after release of first public **China Strategy** (2021) by Switzerland • **Reactivated diplomacy** post-Covid (around 20 active dialogues) and amid new dynamism around discussions to upgrade of the Sino-Swiss **Free Trade Agreement** from 2013 • **Li Qiang** as highest PRC visit (Jan 2024) in 7 years • Switzerland no formal focus on economic security • But: public attention to bilateral relations in CH in response to FTA upgrade talks, **NGOs demanding stronger environmental and human rights clauses** (FTA likely subject to facultative referendum), plus **FDI screening** in the making

"Taiwan issue": Conflicting interests and declared ambitions make for a real geostrategic conundrum

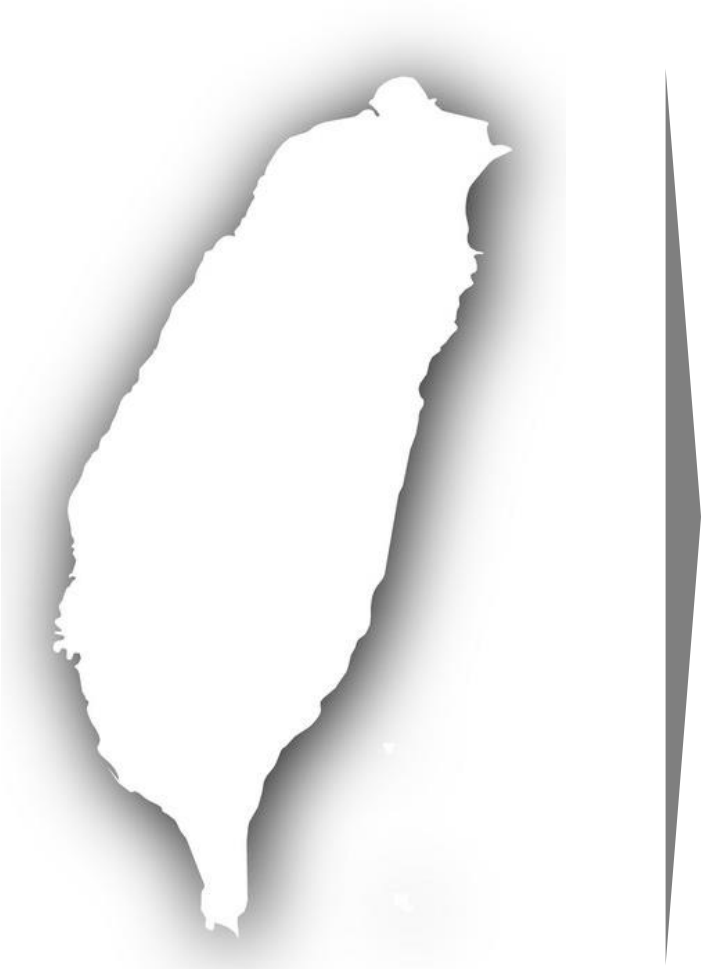
	PRC view	US view	Taiwan view
Declared objective	• «**National reunification**» of Taiwan with the PRC as «historic task» and part of China's «**national rejuvenation**»	• Preserve **peace and stability** until a **peaceful solution** can be found that considers «**the wishes and best interests of Taiwanese**»	• Taiwan **already a *de facto* sovereign country**, leaders see their responsibility in preserving this autonomy and democracy
Strategic interests	• «**Reunification**» as only way to «… **foil attempts of external forces to contain China**, and to safeguard **sovereignty, security, and development interests**» • Break US **«island chain strategy»** of containing China	• Support Taiwan's de facto sovereignty as a «democractic» country • Effective US-led **deterrence** and US credibility in the region • **Peace and stability in region**, also in view of supply chains and growth	• Preserve political **autonomy** • Keep **international support** for own «cause» • Keep **US** engaged in this «issue»

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

“Taiwan issue”: Key political factors influencing “cross-strait dynamics”

China	US	Taiwan	Japan	EU
• Maximized deterrence as core paradigm – including assertive rhetoric • Military build-up / modernization (2035) • Implicit deadline 2049 and ‘warning’ at 20th Party Congress • New Politburo member from Eastern Theatre Command • Tactical flexibility on «carrots» and «sticks»	• Reinforced broader strategic objectives in the Indo-Pacific • Deepening engagement and «arming» of Taiwan • «Pelosi visit» • Debating need for «strategic clarity» • Presidential elections	• Growing societal alienation from the «mainland» • President Lai Ching-te’s more assertive rhetoric (e.g. May 20th inauguration) • But «political dead-lock», with power distributed between executive and legislative	• New national security strategy, calls China Japan’s "greatest strategic challenge" • Massive one-off defense spending (USD 53 B) • US-Japan stepping up defense partnership	• Broader recalibration of relations with PRC («systemic rival») • Deepening engagement with Taiwan • «Lithuania case»

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



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

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

Dynamics shortly before a potential escalation can fully alter trajectory, e.g. serious threat of invasion

‘Cross-Strait stability’: key factors provide for stability in Cross-Strait relations into medium term

Stabilising factors	Description	Possible counter-developments	Net stabilizing effect (medium term)
US deterrence and assurance strategy	• Mutual tacit assurances at the recent Xi-Biden summit, suggest that the **PRC will not challenge Biden’s two-pronged deterrence strategy** of threat and assurance, as long as the US and TW do not overstep any red lines	• **A change in the US administration** could endanger this “quasi consensus” by either weakening deterrence by pulling back on commitments made vis-à-vis Taiwan, or by failing to assure Beijing effectively	●
Economic and tech inter-dependency	• **PRC still a major trading partner of TW**, but declining in importance – Cross-Strait trade has dropped by 27% in H1 2023 reflecting some diversification dynamics with today’s 1/3 share of TW exports to 3rd countries growing	• Although economic inter-dependence will unlikely be a decisive factor in the question about “war or peace”, the prolonged decline in Cross-Strait trade will nonetheless decrease the **stabilizing and trust-enhancing-effect of trade**	◑
PLA not prepared / modernized	• As long as the **PLA still sees its capabilities** as insufficient to accomplish an amphibious invasion on Taiwan, any military threats need to be understood more politically and tactically	• China’s **14th Five-Year-Plan (2021-2025)** introduces a first-time new and vague centenary goal on PLA modernization by 2027, plus proposes its “basic modernization” by 2035	◕
Strategic preference for non-military solution	• Beijing’s declared objective remains to achieve **“national reunification” by peaceful means**, if not compelled to use force – this policy remains its strategic preference	• **Societal and demographic trends** in Taiwan with deepening local identity and political preference for Taiwan independence are narrowing prospects of a reunification scenario	◕
Unclear outcome of Ukraine war	• Russia’s failed attempt to swiftly invade Ukraine **raised questions for China’s military strategizing** whether an invasion of Taiwan could lead to a similar quagmire	• PRC is likely learning from the Russia case and is in **longer-term process of hedging** against potential similar Western sanctions e.g. by strengthening relations esp. to developing countries	◕
Conflicting domestic priorities	• **Fundamental domestic priorities** (esp. High Quality Development and 2035 goals) can be crucially undermined by a Cross-Strait contingency and ensuing economic fallout	• **Economic downturn** could drive Chinese leaders to divert attention by waging an invasion, but research shows China in fact compromises more externally when facing domestic pressure	●
Innovative 1C2S formula	• As part of a **new “Innovative One China Two System” approach**, Fujian has launched a charm offensive via a new “Model Zone of Cross-Strait Economic Relations”	• As **survey trends in Taiwan** show, the perceived failure of the One China Two Systems formula in Hong Kong has damaged the credibility and prospect of a similar solution for Taiwan	◔

2023 Biden-Xi Summit: reportedly mutual assurance made, a «quasi consensus», to respect outcome of election and preserve stability

International pressure on Switzerland increasing, causing a deeper domestic debate

INTERVIEW

US-Botschafter: «Die Schweiz ist in der schwersten Krise seit dem Zweiten Weltkrieg»

The New York Times

War in Ukraine Puts Centuries of Swiss Neutrality to the Test

Switzerland Becomes Stumbling Block for Western Military Aid to Ukraine

Alpine nation's reluctance to authorize ammunition transfers to Kyiv frustrates Ukraine's Western partners

NIKKEI Asia

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INTERNATIONAL RELATIONS

China and Russia test Switzerland's long-standing neutrality

Critics say sanctioning only Moscow shows Bern's inconsistency on democratic values

The Big Read European banks + Add to myFT

A very Swiss identity crisis

The country's sense of self as a haven for the world's money and a beacon of neutrality is being shaken

INTERVIEW

Roger de Weck: «Die Schweizer Neutralität ist eine identitätsstiftende Lebenslüge»

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KOMMENTAR

Ein Hauch von Identitätskrise umweht die Schweiz

Der Untergan
über die Neu
so etwas wie
Spurensuche

Eric Gujer
184 Kommentare
19.04.2023, 05.30

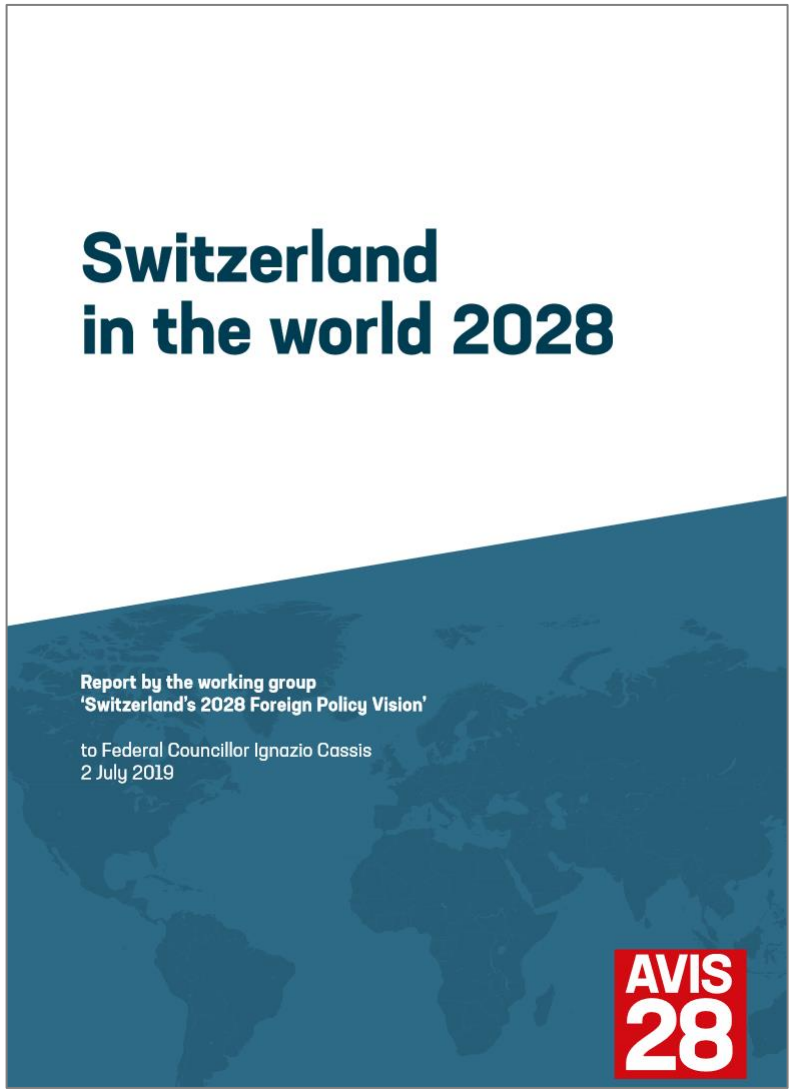
«Der Druck hat zugenommen. Wir orientieren uns am internationalen Recht, andere am Recht des Stärkeren»

Bundeskanzler Walter Thurnherr im grossen Gespräch über die internationalen Krisen, die auch unsere Krisen seien – und die Frage: Wer regiert die Schweiz?

Marc Tribelhorn, Samuel Tanner (Text), Annick Ramp (Bilder)
28.04.2023, 05.30 Uhr

Hören Merken Drucken Teilen

AVIS28 (EDA)



July 2019

"Competition between the major powers will increasingly shape international relations – in strategic, economic and technological terms. ***Geopolitical tensions*** *are growing. Interests are increasingly being asserted through the exertion of power. Nationalism and protectionism are resurgent."*

"In a world dominated by great-power diplomacy, power politics and unilateralism, an independent Switzerland needs to have ***clear strategies for dealing with the most influential actors and viable political relations*** *with them."*

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

CMG analysis

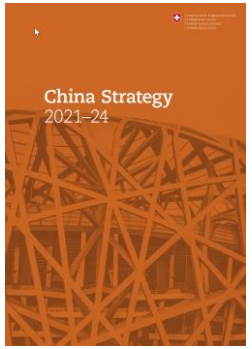
Reflection process initiated by Swiss MFA…

… broadly raising six geostrategic (policy) questions for Switzerland

How are global affairs evolving?	• *How does Switzerland view “multipolarity” as an evolving reality?* • *How is the influence and soft power of the “West” evolving?* • *How is US-China bloc building evolving and what are the effects?*
Proximity to Europe?	• *How to structure relations with an EU striving for “strategic autonomy”?* • *Are there disadvantages and distortions from the EU’s growing “bloc behavior”?* • *When does Switzerland align with EU-level sanctions?*
Position vis-a-vis US-China competition?	• *What is the position of Switzerland among the US, the West, and China?* • *How big is the positioning pressure, are there (already) “hard” trade-offs?* • *How to engage as a European country with China overall?*
Neutrality and security cooperation?	• *Can Switzerland’s neutrality be upheld and is there international buy-in?* • *Shall Switzerland cooperate more strongly with NATO?* • *How to support Ukraine beyond adopting sanctions?*
Reliability of international law and multilateralism?	• *How and where can Switzerland contribute to reforms of multilateralism?* • *Does Switzerland need to team up with other “middle ground” powers?* • *What role can Switzerland play as “host state” of UN organizations?*
Independent foreign policy?	• *Can Switzerland uphold a sovereign, independent foreign policy?* • *Can Switzerland remain a credible actor to offer “good offices”?* • *Is accession to the EU the only mid- to long-term option?*

Switzerland’s China policy as first policymaking example requiring to take (subtle) policy position across many of these questions

Switzerland's China strategy (March 2021)



March 2021

3.2 Switzerland's global positioning

In the FPS 2020–23, the Federal Council states that foreign policy is becoming more challenging owing to political developments around the world, and that relations with the major powers are gaining in importance for Switzerland. Relations with individual states must therefore always also be considered in their wider context.

The rise of China and shifts in global power structures do not fundamentally call Switzerland's foreign policy positioning into question. It will remain both independent and universal in outlook. Switzerland is neutral, does not belong to any bloc, and is committed to dialogue with all states.

At the same time, it will continue to defend its long-term interests and values. A liberal economic order bound to the rule of law and the basic rights of the individual and underpinned by democracy are unmistakeably Swiss core values that have brought the country security, independence and prosperity for decades.

Geopolitical polarisation is not in Switzerland's interests, neither is bloc-building around China and the US. Indeed, Switzerland supports reforms to international organisations so that multilateralism remains fit for purpose in the 21st century. Global problems demand global solutions, as the only way in which security, the rule of law and reliability can be assured.

Independent positioning, targeted diplomacy and carefully considered conduct in international disputes, all rooted in international law, are the basis of trust in Switzerland as a bridge-builder. Through its good offices, it supports stability in the international order. Geneva can exist as a neutral yet international venue for dialogue only if Switzerland's actions are credible and it exercises the appropriate discretion at all times. In return, Switzerland expects its independence to be respected around the world, and that it will not face either/or ultimatums. In the event of doubt, it will stand up for freedom.

European states and the EU itself often represent positions similar to those of Switzerland, and remain its most important partners. Indeed, our values are often fully congruent. Structured relations with the EU are even more important in the current geopolitical situation, and closer coordination is also urgently needed on certain global political issues. However, Switzerland also coordinates with a large number of states outside of Europe that pursue similar interests. The objective is to strengthen rules-based multilateral cooperation and jointly to resolve global challenges.

The Federal Council is guided by the same positioning in its relations with China. Cooperation with non-democratic states is demanding, and dialogue is difficult where there are differences of opinion. Divergent domestic policy expectations are a further complicating factor in China's case. The Federal Council nonetheless believes firmly that Switzerland can most effectively continue to safeguard its interests and values through broadly diversified relations with China. Turning away from China would not have a positive effect on domestic policy developments there, but it would harm Swiss interests and fuel uncertainty about Switzerland's foreign policy positioning in general.

"The rise of China and shifts in global power structures do not fundamentally call **Switzerland's foreign policy positioning** into question."

"It will remain both independent and universal in outlook. **Switzerland is neutral, does not belong to any bloc**, and is committed to dialogue with all states."

"**Geopolitical polarization** is not in Switzerland's interests, neither is bloc building around China and the US."

"Switzerland expects its independence to be respected around the world, and that it will **not face either/or ultimatums**. In the event of doubt, it will stand up for **freedom**."

"**European states and the EU** itself often represent positions similar to those of Switzerland (…) indeed, our values are often fully congruent" (…) "**Structured relations with the EU** are even more important in the current geopolitical situation (…)"

"Switzerland also coordinates with a large number of **states outside of Europe** that pursue similar interests"

"The FC (…) believes firmly that Switzerland can most effectively continue to safeguard its interests and values through broadly diversified relations with China. Turning away from China would not have a positive effect on domestic policy developments there, but it would **harm Swiss interests and fuel uncertainty about Switzerland's foreign policy positioning** in general."

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- "Third Plenum" (July 2024) and key economic reform priorities
- Post-Covid economic performance

3 Select geopolitical factors: "Taiwan issue" and Switzerland's China strategy 10'

Discussion / Q&A

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