China’s Next Chapter



(L–R): Marcos Troyjo, President, New Development Bank (NDB); Jane Sun, Chief Executive Officer, Trip.com Group; Nicolas Aguzin, Chief Executive Officer, Hong Kong Exchanges and Clearing; Weng Jieming, Vice-Chairman, State-owned Assets Supervision and Administration Commission (SASAC); Kevin Rudd, President and Chief Executive Officer, Asia Society; and host Li Xin, Managing Director, Caixin Global, Caixin Media.

Following the 20th party congress, what are the critical economic and political decisions affecting China’s global government and business relations?

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In a much-anticipated moment by the world, on 7 December 2022, China announced that it was ending its zero COVID policy and opening its borders. Despite the euphoria, there were more questions than answers about China’s road ahead, given that 2023 is a challenging year everywhere and China’s prosperity bears significantly on the global good.

The questions asked are reasonable given that China’s economy grew only three

percent in 2022, reported as the second-slowest growth rate since 1976. After the reopening announcement, the government said it intended to focus on stabilizing its $17 trillion economy in 2023 and step-up policy adjustments to ensure it meets vital targets.

In an interesting discussion on the sidelines of the World Economic Forum in Davos in January 2023, five speakers came together to respond to different perspectives of “China’s Next Chapter”. The concerns ranged from what China’s reopening will mean to the world. The prospects for high-quality growth within China, the pace of the recovery and the obstacles, the market sentiments, and private sector aspirations. China’s innovation-oriented strategy, roles of State- Owned Enterprises in China’s 2023 growth, supply chain challenges, and the impact of geopolitical dynamics.

The discussion was developed in collaboration with Caixin Media and hosted by Li Xin, Managing Director, Caixin Global, Caixin Media. The five panelists were Weng Jieming, Vice-Chairman of the State-owned Assets Supervision and Administration Commission (SASAC); Nicolas Aguzin, Chief Executive Officer of Hong Kong Exchanges and Clearing Limited (HKEX); Marcos Troyjo, President of New Development Bank (NDB), Kevin Rudd, President and Chief Executive Officer, Asia Society and Jane Sun, Chief Executive Officer, Trip.com Group Ltd.

Interestingly, moderator Li Xin asked every panelist to give a one-word description of China’s next chapter. Marcos Troyjo described it as “Evolution.” For Jane Sun, it was “Innovation.” “Vital” was Nicolas Aguzin’s one word for China’s next chapter, “High-Quality Opening” by Weng Jieming, and for Kevin Rudd, China’s next chapter is “Still Uncertain.”

What does a more open and vibrant Chinese economy mean to the world?

Former Australian Prime Minister, China specialist, and fluent Mandarin speaker Kevin Rudd opened the discussion with a euphoric expression of China’s return to the global stage. His upbeat tone was natural for someone with an avid interest and strong relations with China and who had traveled to the country more than 100 times.

While COVID had been difficult worldwide, China’s handling of the pandemic at

home had been watched keenly by everyone up until its announcement on 7 December 2022 to open its borders finally. What was evident to everyone was the negative impact of China's zero COVID policy on economic growth. The three percent growth in 2022 is likely to increase to five percent at best in 2023, which will be turbocharged by consumer demand. The excess of two trillion dollars in Chinese consumer savings accumulated over the last few years in deposits will hopefully be mobilized and redeployed into domestic and international private consumption to accelerate economic recovery. Rudd is optimistic that China will achieve a solid growth rate in 2023. China's upward performance is vital in a growth- challenged world, said Rudd. China's performance is essential for the simple reason that everyone's looking for a way out. Europe is facing recessionary challenges. There is uncertainty in the US. The looming question mark on the outcome of Fed decisions to raise interest rates to bring price stability and balance to the labor market doesn't predict how hard or soft the landing would be. The developing world is struggling. Amid all that, China producing a solid growth rate of five or over five percent in 2023 will underpin much global growth in the future.

A Pro-Growth Positive Government – The Prospects for High-Quality Growth – Government Perspective

The Chinese government is ready for the next growth chapter following its controversial zero COVID policy. There is much buoyancy about positive future growth in the post-COVID era, which the government predicts will benefit many stakeholders in China and outside. China's door has been open to the world, said Jieming, an invitation to harness the benefits therein. However, even in opening borders, throughout its history of over 40 years, he said China has focused on doing it gradually while protecting its people was a priority.

Even amid the pandemic, China did not cease its global involvement and work, as evidenced by its presence in nearly 880 projects in economies around the world. That saw China continuing its international relations with governments around the world. China, said Jeiming, will increase its involvement in more global projects as it moves forward, which he predicts will benefit China's economy, its businesses, and the world. Building stable supply chains, he said, is essential for Chinese and foreign companies, which would benefit the shared development of high-level technology and the continuous refinement of the fair and equitable order. In an optimistic and invitational note to the world, he said the Chinese market offers many mutual benefits, but opening an economy entails a two-way process. While

China will maintain a high- level growth trajectory, he insisted that there should be reciprocity in the degree of openness for cooperation to move forward on a stable footing and for mutual benefit.

Sustainable Recovery

With China's opening, the world is watching for a bounce back. The dynamics of a new post-COVID trajectory involve two opposing expectations – one that desires a speedy recovery instead of a slower recovery that would last. However, there is a problem with how China opens up to the world. The degree to which it is willing to accommodate the dynamism of globalization. And according to Marcos Troyjo, the single biggest obstacle for China is the temptation to shy away from globalization, something that China should avoid, he said in a post-open border era. He pointed out that an insular China becoming a beacon of economic prosperity in the last four decades became possible with the decision to open borders, spurring engagement with the world and maintaining an intense flow of trade and investment. Today globalization is shifting.

According to Troyjo, for China's recovery to be sustainable over time, it will require four critical drivers.

First, emerging economies like China should dominate an increasing share of the global GDP pie. Emerging economies have the opportunity to become significant shareholders of global GDP, evidenced by the 2022 performance. In 2022, the GDP per capita on purchasing power parity was nearly 20 to 25 percent bigger in E7 economies than in the G7 economies. This phenomenon could lead to the assumption that the relative size of China buttresses such significant numbers. Even without China in the E7 and the US in the G7, the GDP in purchasing power standards in E7 is more potent than in G7. Engaging in more trade and investment is one way to make recovery more sustainable over time.

Second, there's a new generation of trade agreements beyond tariffs and quotas which are on standards and parameters where China has to be there as a shaper of those trade agreements in the future.

The talent-intensive economy is the third driver. The advantage of open borders and increased exchanges with the world will allow talent to move into China and

vice versa.

Fourth, China’s leadership in the increased marriage between physical and intensive infrastructure leads to long-term growth.

Since the panel is titled the Next Chapter of China, if China is the architect of the next chapter of globalization and avoids the temptation to shy away from it, the economy will not only grow but will be sustained over time.

The Direction of Market Sentiments

One factor with great potential to boost post-COVID growth in China is the stock market, and since its opening, the sentiments have been anything but negative. It was faster than most people expected. Analysts consider China’s post-COVID reopening as the most positive catalyst for global markets in 2023. A long list of policy initiatives accompanied the country’s opening. Besides having an active monetary policy, and a very supportive fiscal policy, the government announced that it would focus on areas that have lagged in 2022, such as the real estate sector. Government intervention in the property sector is vital to economic growth. That pivot, and the focus on resolving issues in the technology sector and positive international investor sentiment, is a good sign of better things to come, said Nicolas Aguzin. For instance, he said, with indications of a reopening in November and until the present, the Hang Seng index has risen by about 40 percent. The Hang Seng TECH index, which represents the 30 most prominent technology companies listed in Hong Kong has increased by 60 percent. In the first ten days of 2023, there had been more international inflows through the Stock Connect scheme into China than in the whole of 2022, which has spelled a remarkable turnaround in a short span.

The unleashing of domestic consumption fueling “revenge spending” in a post-COVID atmosphere is another driver of economic recovery domestically and globally. As a result of the country’s zero-COVID rules restricting consumer spending, today, China has one of the biggest pools of savings – $2.6 trillion in bank deposits. The Chinese, known as prolific savers, save at least 25 percent of their disposable income, which increased to 35 percent in the last two years. According to Aguzin, all these factors, supported by favorable conditions, augur well for the market. However, one must compare this upbeat sentiment with the subdued international outlook for developed economies as the prospect is a global slowdown

with an increase in rates. There will be much to watch for as 2023 wears on – a careful eye on the dynamic play between developed countries and China and developing economies and China.

External Environmental Challenges

China relies on export heavily. During the first two years of COVID, solid international demand pushed up the Chinese economy. In a global context of widespread recession across economies, China is faced with a unique external environment in 2023 of residual domestic headwinds and also international headwinds. According to Kevin Rudd, the Asian Society Policy Institute analyzed at length China's Central Economic Work Conference in December 2022, comparing it with the one held in 2021. Accordingly, he said the changes are headed positively toward China's growth. Increased activity in the property sector and the platform economy and reviving consumer spending are vital drivers to spur the Chinese economy in 2023. Meanwhile, Rudd said that the international community will be observing what will happen with Chinese fixed capital investment and whether it will recover from the doldrums of recent years. Private investors' confidence to invest in new plants and equipment in the future remains a question mark.

On the international headwinds, analysts are still in the balance of the global economy in 2023. China will see its strong export sector facing challenges in 2023, although by and large, China's traditional reliance on net exports as a driver of growth will remain. The challenge arises primarily from being driven out of Europe, partly out of the United States, and other markets. Rudd explained that it would not be a strong driver for China's domestic growth performance as some Chinese economic planners would want.

If China and the United States can keep geopolitics within a certain equilibrium, that should drive moderate growth. If not, that, too, will act as an external headwind.

China is Transitioning from an Export-oriented Strategy to an Innovation-oriented Strategy

When China began transitioning by opening up the economy in 1978 to foreign trade and FDIs, the trade- to-GDP ratio was only 12 percent. That ratio gradually increased until 2006, when it recorded 64 percent of the GDP, declining to 35

percent in 2022. According to Marcos Troyjo, those declining figures are evidence of China’s preparedness to transition from an export- oriented economy to an innovation-oriented economy. He said that China has already put a structure for this new phase. During the Import Export conference two years ago, President Xi Jinping predicted that from 2022 to 2032, China would import about 28 trillion dollars worth of goods. China’s growth and China’s demand vis a vis export-oriented and trade-based will be robust. The question is, will this transition mean more value- addition to China?

More than three decades ago, when China demonstrated its ambitions to become an economic superpower, its R&D spending accounted for 0.6 percent of its GDP, reaching 2.5 percent today, the OECD average. China’s great strides in innovation are evident in the number of patents it deposits at the World Intellectual Property Organization, demonstrating its transition to innovation. The new phase signifies advanced innovation from its current status. This transition, according to Troyjo, will be easier for China if it remains open and plays the role of the architect of globalization.

The Impetus for the Travel Industry – Signs of Rebirth?

Today’s hope ignited in the travel industry lost its luster three years ago. With a large largess of domestic savings, there is hope for a travel industry revival as the opening is likely to drive up domestic spending. However, in the last three years, the travel industry has been one of the most significant casualties of the COVID-19 pandemic and China’s zero COVID policy. The fallout spilled over to affect more than just travelers. The casualties included part-time workers in airlines, airports, and hotels losing work. Under very trying circumstances, Trip.com had stuck to its guns by putting the customer first, its partners second, and the company last. Jane reminisced that customers who had paid for travel three years ago were at the border trying to leave but couldn’t. Even before the airlines and hotels promised a refund, Trip.com pledged a 100 percent refund to its customers. In total, the company refunded $20 billion to its customers.

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As opposed to the travel industry travails of the past three years, the present circumstances augur well for Trip.com, which is experiencing a tremendous surge in demand for travel since China’s December 2022 announcement to open borders. At home, said Jane Sun, CEO of Trip.com, they have reached the 2019 level of business.

To preserve the ecosystem, Trip.com established a $2 billion partnership fund to help small partners to raise their cash flows. Employees were undergoing tremendous hardships, and Jane and some other senior executives in the company voluntarily forsook their pay. In contrast, employees volunteered to work fewer days to help sustain the business through a difficult period. It was a collective effort that helped maintain the business and preserve talent and the workforce.

Their policy paid off as the border opened, which saw the company responding to the demand by swiftly recovering the ability of its workforce and the capacity to host millions of customers ready to travel.

There is an impetus for a strong recovery in travel with predicted “revenge travel” by people. The challenge is ensuring that the governments and partners also fall in line and can bounce back. The company is working with its hotel, airport, and airline partners to ensure that their plan to recover 30 percent in the first quarter, 60 percent in the second quarter, and total capacity in quarter three is realizable. By the end of 2023, Jane is hopeful that the company will be able to resume normal operations.

With the positive headwinds of a strong recovery, the most challenging aspect for the industry is facilitating cross-border travel. There has been a three-digit growth in terms of demand for cross-border travel. Trip.com is working closely with global partners such as international airlines, airports, and hotels to ramp up its capacity to bring more people from China to the rest of the world and vice versa. Cross-border transactions have reduced significantly in the past; hence China is ready to welcome international visitors to conduct business in the future.

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Hong Kong Yoking the Potential in Chinese Tech

While the HKEx is deemed a favorite destination for the Chinese tech sector, the HKEx looks to the mainland to drive trading volumes, and the mutual market access they share is evident in the 100 companies lined up to go public. As the CEO of the HKEx, Aguzin outlined the market's buoyancy despite 2022 headwinds during which 90 companies received listing in the stock market. The potential attraction for tech and innovation stocks is evident in the global listings, where nearly 70 percent of the capital raised worldwide had come from the combined markets of Shanghai, Shenzhen, and Hong Kong, a lot of which got channeled into the innovation and technology sectors. Since the introduction of Hong Kong's new listing regime in 2018, nearly 254 companies went public, raising a trillion HKD, equivalent to US$130 billion.

There is optimism amid many market changes to ensure it becomes attractive to tech companies. Tech and innovation have a lot of policy backing. The HKEx sees potential in the Greater Bay Area – an integrated economic area described as the Silicon Valley of China with a population of 87 million people and a GDP of nearly two trillion dollars where companies are dabbling in innovation. To harness the potential in the mainland, in 2022 HKEx submitted a Consultation Paper on New Listing Rules for Specialist Technology Companies. It proposed lowering the bar for innovative technology enterprises with a lack of revenue but significant spending on R&D to enter the market. That includes companies engaged in quantum computing, space technology, and AI, which are essential areas in innovation but lack profitability to qualify to enter main markets, which Hong Kong is trying to attract through reforms.

The platform economy is being increasingly regulated around the world, including in the US and Europe, owing to issues on data monopolization, self- preferencing, algorithm discrimination, and algorithm abuse leading to a plethora of antitrust laws to regulate the digital platform economy. In tow is China. China, too, has taken steps to regulate the platform economy. Several required remediations have been achieved to a great extent with positive feedback combined with a lot more optimism about companies' ability to tap international markets, concerning the big platform economy, according to Aguzin.

SOEs propel economic development. In terms of labor productivity, central SOEs work four times the market average and have done well in growth terms.

The Role of SOEs in China’s Growth

China’s central SOEs have a unique position in the Chinese economy. They play multiple roles. One, they have to work with companies of different ownerships. China has 160 million economic entities involved in various businesses, especially utilities, and petroleum. To the work of the central SOEs, there is a smooth flow of utilities to consumers while there is a continuation for utility providers. To the credit of the central SOEs, the oil price in China is at an international average rate.

In contrast, water, electricity, and gas are priced lower than the international average. Electricity prices in Renminbi terms for residential use in China have been half a Renminbi. In 2022, amid soaring global energy prices, Chinese businesses and residents didn’t feel the change because they were in a very low-cost environment.

Two, SOEs propel economic development. In terms of labor productivity, central SOEs work four times the market average and have done well in growth terms. The operating income of 2022 was close to four trillion Renminbi. The total profits were 2.55 trillion Renminbi, a growth of 5.5 percent. The goal for 2023 for central SOEs is to exceed the current target for GDP growth or even better so that they can create better conditions for the Chinese economy, making better economic conditions for China’s international partners.

Three, new energy, artificial intelligence, new materials, and heightened manufacturing targets are future-oriented, and doing that involves increased cooperation between the state and private sectors.

Four, companies with all types of ownership must move forward and develop together benefitting supply chains with an emphasis on equity and cooperation. Improved competitiveness is a challenge for all companies. SOEs and other companies need to improve. Central SOEs don’t have preferential policies, but they compete on a level playing field and all work on the same stage. First, they must improve efficiency to improve value addition. Second, China needs a new three-year

reform program for SOEs to simultaneously become more dynamic and innovative. Third, China must pay more attention to tech R&D to have a greater impetus behind its development. Industrial companies are investing three percent of their operating revenue in R&D. Tech companies are investing ten percent of their operating income in R&D.

In closing, Weng Jieming insisted that China is keen to work more closely with foreign companies and the private sector to play to their respective strengths so that everyone can reach the dividends of China's development.

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The Way Forward Amid Geopolitical Nuances

The frayed relationship between the US and China looks unceasing. For some time now, China has been alleging that the US is restricting its access to critical technology, especially chip manufacturing, while supposedly lobbying allies and partners to cut Chinese tech companies out of their supply chains.

US measures, said Rudd, don't occur in a vacuum. It's part of the bigger picture. The bigger picture, he said, is the strategic competition between the United States and China which has been underway for at least five years, and even if either of the countries refuses to recognize it, it is a reality playing out on the world stage. The challenge for geopolitics is finding a stabilizing mechanism, given the reality of that competition, to prevent it from escalating into a future crisis, conflict, or war. The favorable outcome of the Biden-Xi Jinping summit in Bali in November 2022 was to take tentative steps to manage their differences and prevent competition from escalating into conflict. There was a predisposition to put some guardrails around the relationship, the so-called "each other's red lines."

In 2015 China launched the "Made in China 2025" national industrial policy program aimed at becoming self-sufficient in ten critical technologies. Furthermore, the Central Economic Work Conference report of December 2022 recognized key

technologies for its economy, dubbed “frontier technology,” aspiring to achieve national self-sufficiency in quantum computing, semiconductors, and artificial intelligence. These measures, according to Rudd, by and large, predated the American reaction in recent times. In the future, Rudd was skeptical about the problem-prone technology-based competition between the two superpowers becoming anything but stable. Any possibility of moving forward hinges on resolving the underlying geopolitical stabilization issue. Otherwise, that competition will continue and spill over to new areas such as quantum computing and artificial intelligence. Given the interdependence of the two countries on technology, “technological decoupling” is being touted in response to the tensions. Rudd cautioned that without enough done to quell the pressures and the paradoxes of the US-China tech relationship, the decoupling of the two countries’ tech ecosystems could become real.

Challenges to China from China Plus One Strategy

According to Marcos Troyjo, geopolitics is becoming a decisive factor in changing supply chains. Rather than relocating supply chains, he proposed making impactful structural changes, such as creating value networks to benefit all stakeholders. For instance, he pointed out that in 2002, the China- Brazil trade was a billion dollars a year. Today, it’s a billion dollars every sixty hours. China is more of a trading partner than the United States in two of every three emerging economies. That could create a new web of collaborations extending beyond supply, touching on demand for R&D flows and organizing strategies. What is more important than the geopolitical discourse is that the balance sheet will determine the reallocation of supply chains, thereby forcing a rethink on resource allocation to areas that matter.



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