

Chinas Industriepolitik: Von De-Risking bis zur Transformation der Chemie

Webinar hosted by Dr. Matthias Blum, Abteilungsleitung Außenwirtschaft,
Außenwirtschaftspolitik, europäische/nationale Industriepolitik, VCI

14th August 2024

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[China Macro Group \(CMG\)](#)

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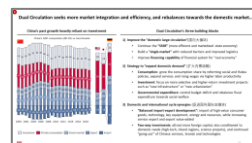




Profile

- CMG is an agile, diverse and partnership-led **European boutique consulting** with specialization in applied China research and analysis
- CMG serves European **MNCs, SMEs, the public sector** as well as **investors**
- It focuses on China's **policy, market and China-related international affairs**
- CMG operates with offices in **Zurich, Munich and Beijing**

Key expertise areas



Economic policies and market reforms

- SOE reform, market access, SSSR, tax system

Financial system, market and policies

- Financial opening-up, Green Finance, FinTech

Industrial, S&T and talent policies

- Guidance funds, MIC25, int. S&T cooperation

Trade and foreign (economic) policies

- RCEP/CPTPP, trade promotion, Belt-and-Road

Social and environmental policies

- Silver economy, Hukou reform, carbon trading

Our approach

Fact-based, rigorous and in-depth research and analysis

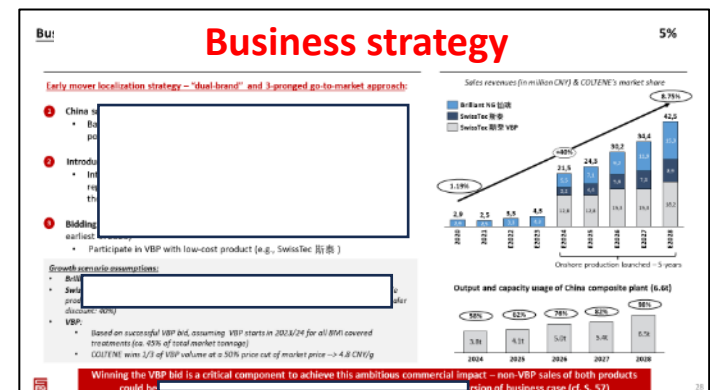
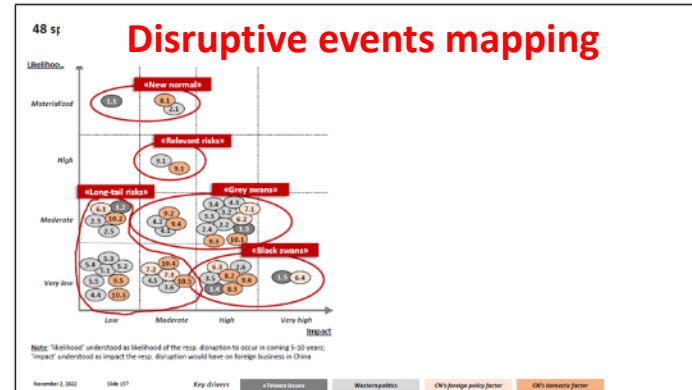
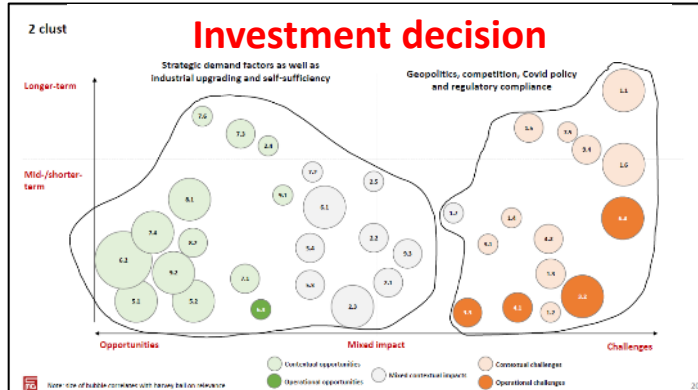
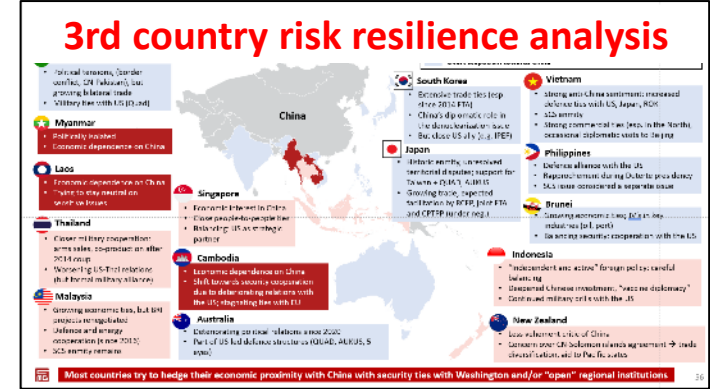
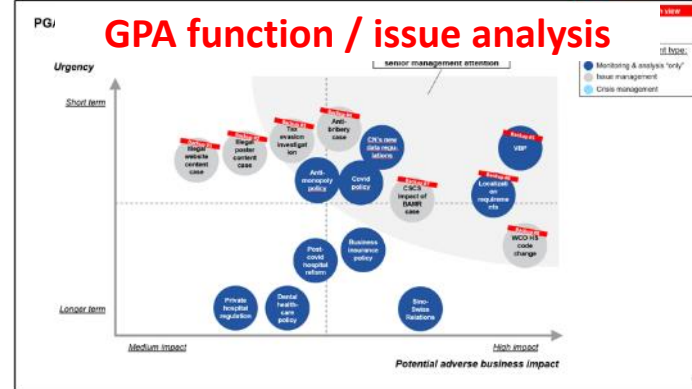
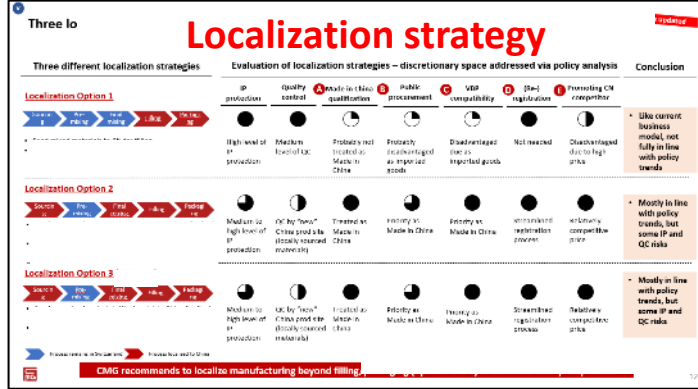
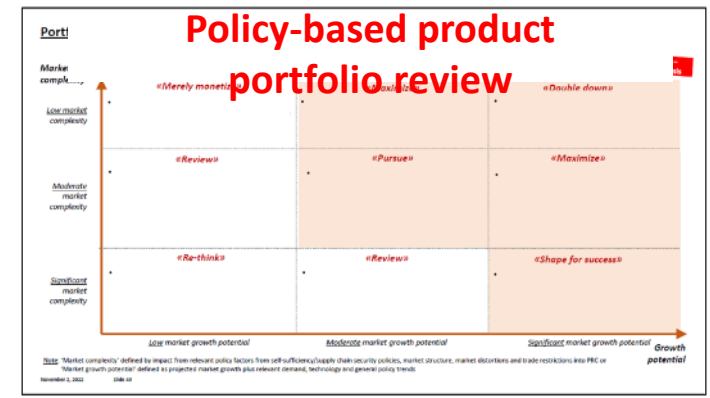
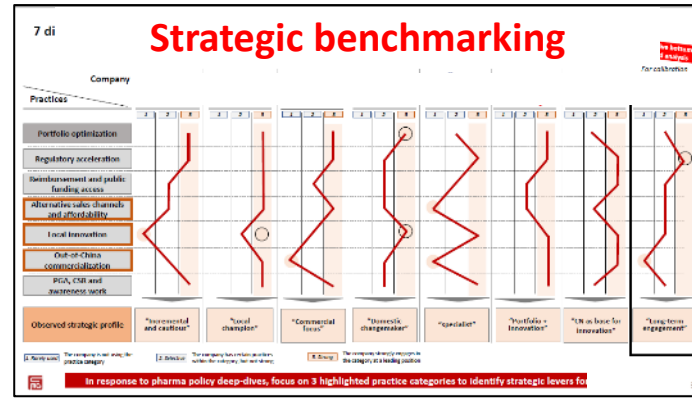
Interdisciplinary and cross-cultural team

On-the-ground presence and engagement with Chinese experts

China competency at the core: language, economic/political system, historic context

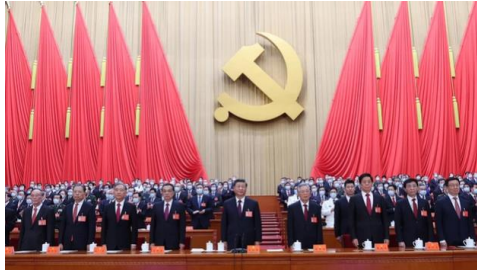


Questions European firms investigate with CMG in China's market and policy-driven environment



Flagship publication: CMG Primers

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



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



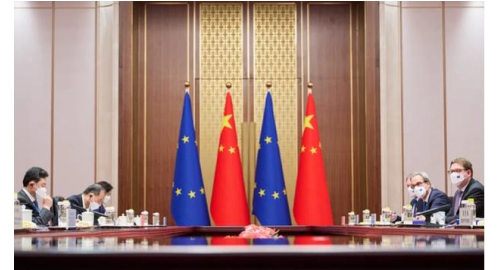
Chinese government remodeled at the **Two Sessions 2023** – policy, people and structure



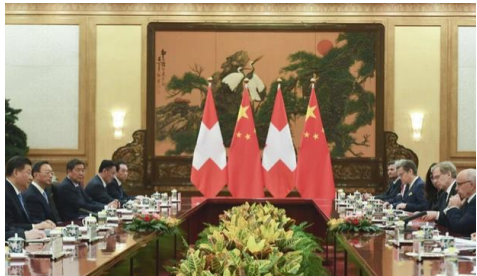
Understanding supply chain distortions of **critical minerals** powering the green energy transition



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



Sino-Swiss – from honing a "special relationship" to balancing new geopolitical complexities



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**'



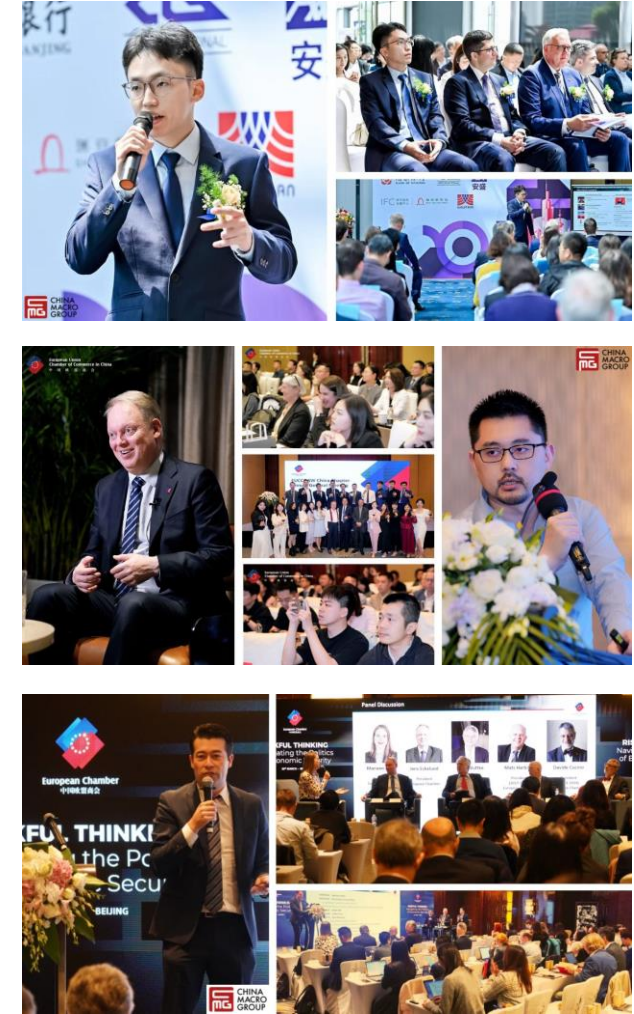
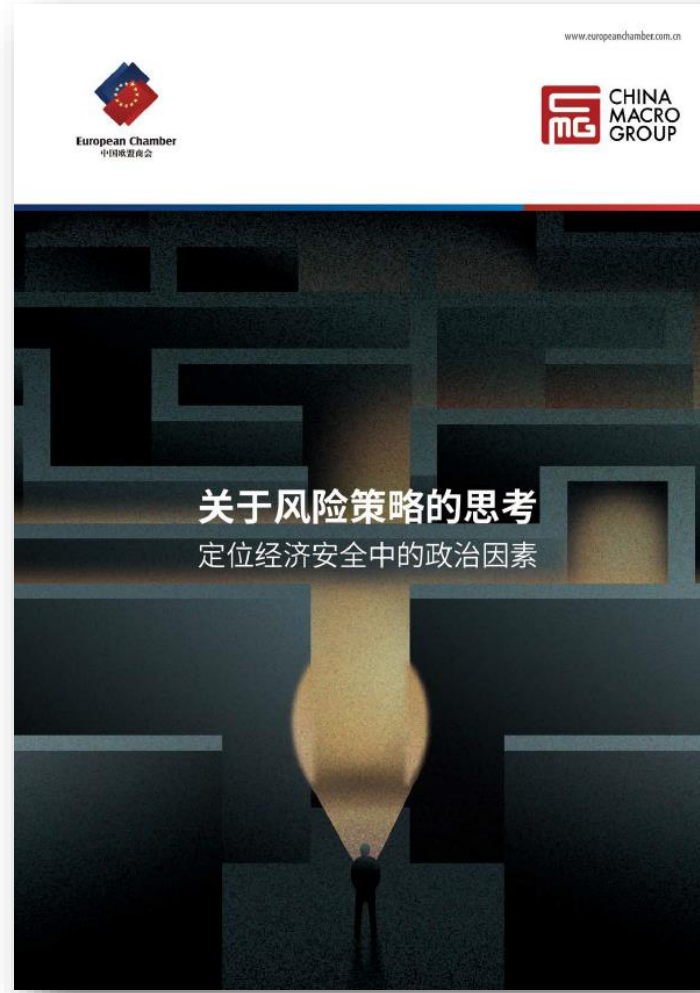
New **EUCCC-CMG report** "Riskful thinking – navigating the politics of economic security"



Recent publication: EUCCC-CMG report “Riskful thinking – navigating the politics of economic security”



Download the full report here



CMG webinars: “Staying in dialogue with China” webinar series, 2024 edition



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



TBC
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



CET: Central European Time | CST: China Standard Time

Thought leadership publication example: Corporate strategy-making in China – six building blocks

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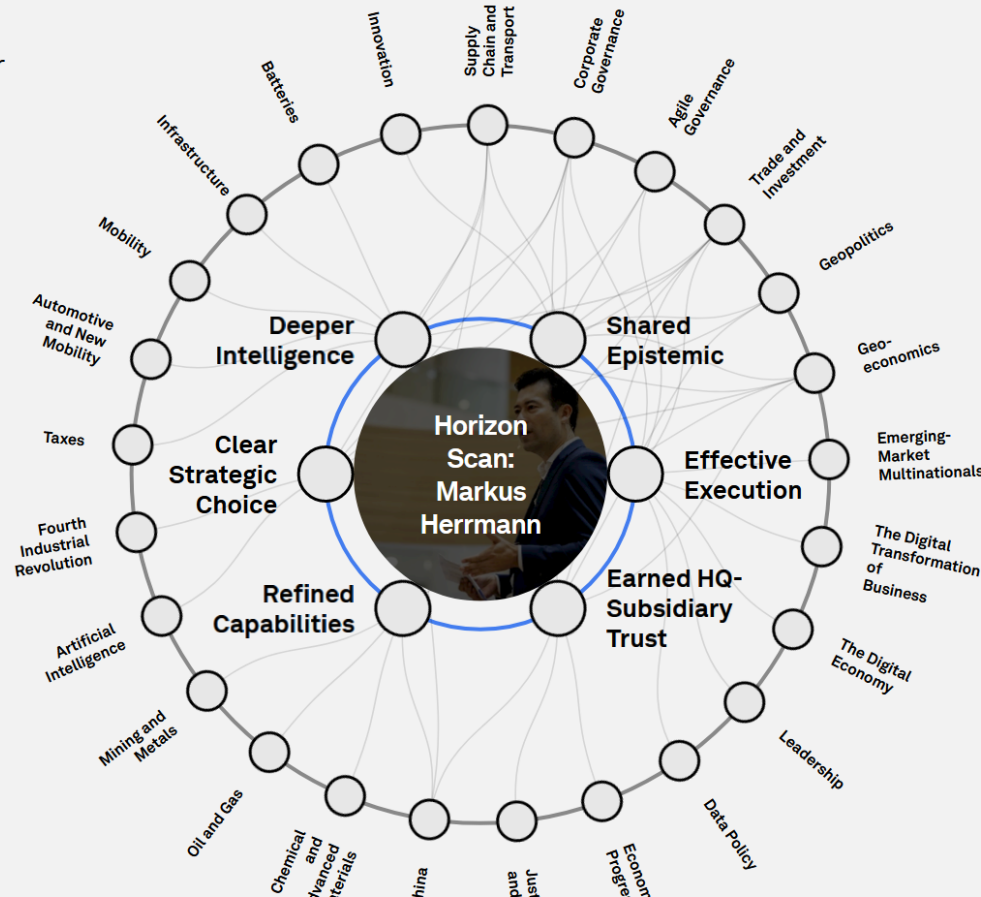
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Horizon Scan: Markus Herrmann

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

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Embed

CMG curation: example of 4-day China Europe-China business conference in Shenzhen (22-25 Oct. 2023)

stars China symposium 2023 (22-25 Oct) – curated, run and moderated by CMG in China’s dynamic Shenzhen



Agenda

- 1** **Broader policy context: 14th Five-Year-Plan (2021-2025) as “strategic shift”** **5’**
 - 2** **Evolving industrial policy factors for FIEs in China’s business environment** **25’**
 - 20th CC ‘Third Plenum’ (July 2024)
 - China’s “de-risking”
 - Industrial policy blueprint for chemicals sector under ‘High-Quality Development’
 - 3** **How foreign chemical MNCs in China respond to evolved environment** **5’**
- Discussion / Q&A** **20’**

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- Discussion / Q&A 20’**

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

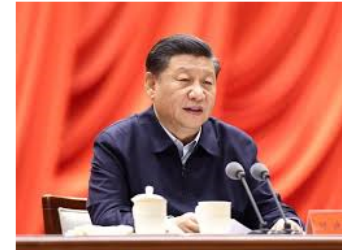
- “Change of principal contradiction in society”
- “New era” (= state/issue)
- High-Quality-Development (= solution)



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'

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. [...]

«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»

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

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Economic policy

Social policy

Security/governance

FYP goals/governance



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

Key structural transitions	Key policy goals	Key issues	Key policies
Economic transition and industrial upgrading	<ul style="list-style-type: none"> Transition to innovation-based economy Climb industrial value chain Digitalization and decarbonization 	<ul style="list-style-type: none"> Service sector contribution to GDP low Manufacturing struggling at mid-end products, low industrial value-added 	<ul style="list-style-type: none"> <i>Made-in-China 2025</i> <i>Opinions on High-quality Development of Service Industry 2019</i> <i>14th FYP 2021 Ch. 8, 10.</i>
Market-oriented reforms and market governance	<ul style="list-style-type: none"> Institutional transition, factor liberalization, SOE reform and "SSSR" Socialist market governance incl. anti-monopoly, / 'social credit' 	<ul style="list-style-type: none"> Low TFP Lower efficiency of state capital Monopolies and overcapacity "Disorderly expansion of capital" 	<ul style="list-style-type: none"> <i>Building Market-Oriented System for Allocation of Factors 2020</i> <i>14th FYP 2021 Ch. 19-22.</i>
Economic globalization	<ul style="list-style-type: none"> Integration into global flow of goods, services, capital, talent and ideas Continued opening-up 	<ul style="list-style-type: none"> Comparatively weak trade of service Comparatively low outbound FDI stock Geopolitics and decoupling policies 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 40</i> <i>Opinion on Increasing Efforts to Attract Foreign Investment 2023</i>
"Domestic demand system"	<ul style="list-style-type: none"> Consumption-boosting policies Rebalancing of public investments Business environment policy 	<ul style="list-style-type: none"> Low consumption share to GDP Demographic shift to aging population Imperfect social security system 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 12-14.</i> <i>Strategic Plan for Fully Expanding Domestic Demand 2022</i>
Social rebalancing	<ul style="list-style-type: none"> Equality and poverty reduction Social fairness and protection Balanced regional development 	<ul style="list-style-type: none"> Inequality: top 1% holds 30% of wealth Vulnerability of social groups (e.g. youth) 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 23-32.</i>
Economic security	<ul style="list-style-type: none"> "Coordinate development and security" 	<ul style="list-style-type: none"> Import dependencies and perceived supply chain risks China's weaker geoeconomic power 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 41-42, 52-53</i>

Longer-term transitions

Trade-off / rebalancing processes

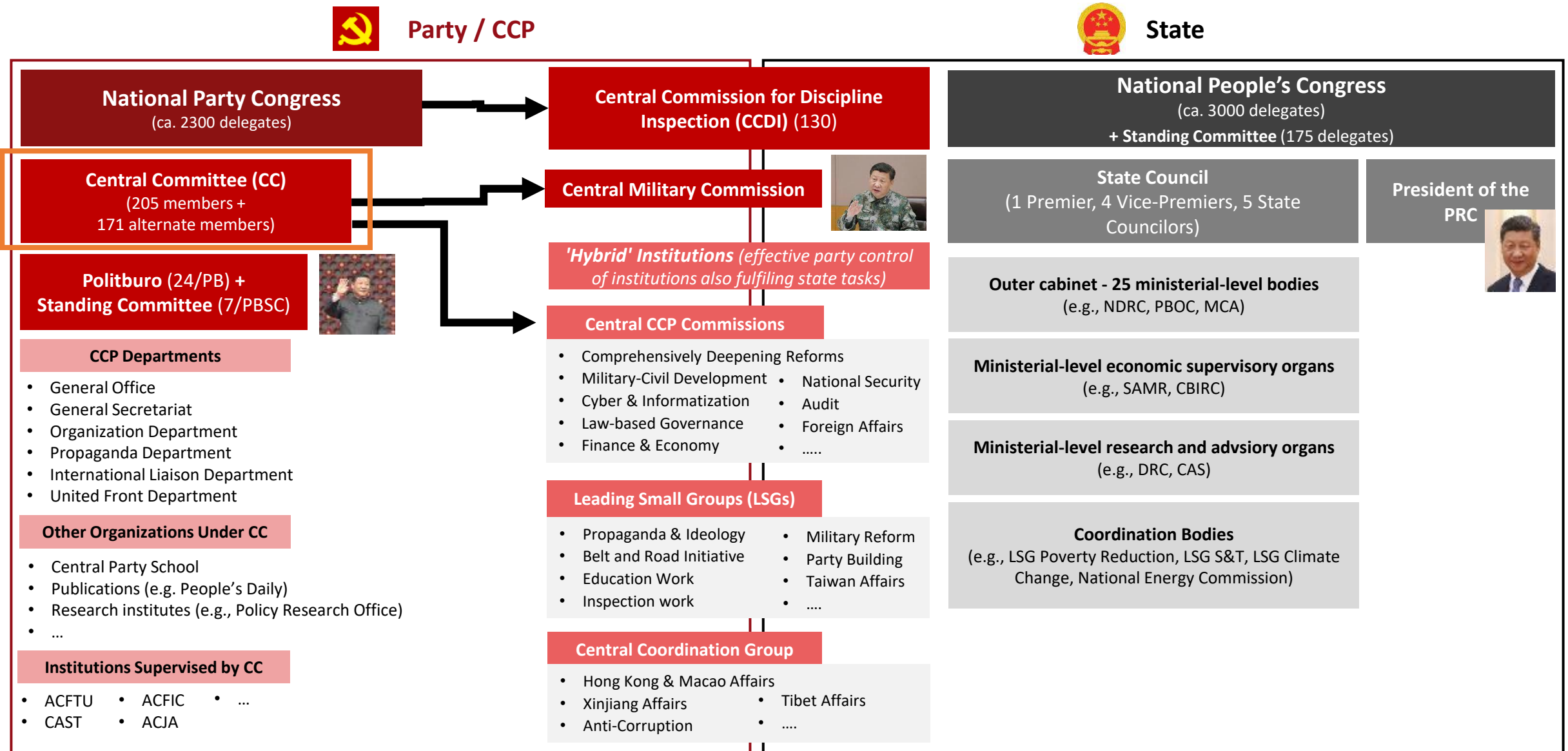


China moved from linear economic development model of reform and opening up under Deng to dealing with strategic trade-offs

Agenda

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 - Industrial policy blueprint for chemicals sector under ‘High-Quality Development’
 - 3 How foreign chemical MNCs in China respond to evolved environment 5'
- Discussion / Q&A 20'

Recap China's 'party-state': Central Committee (CC) is biggest regularly convening senior party body

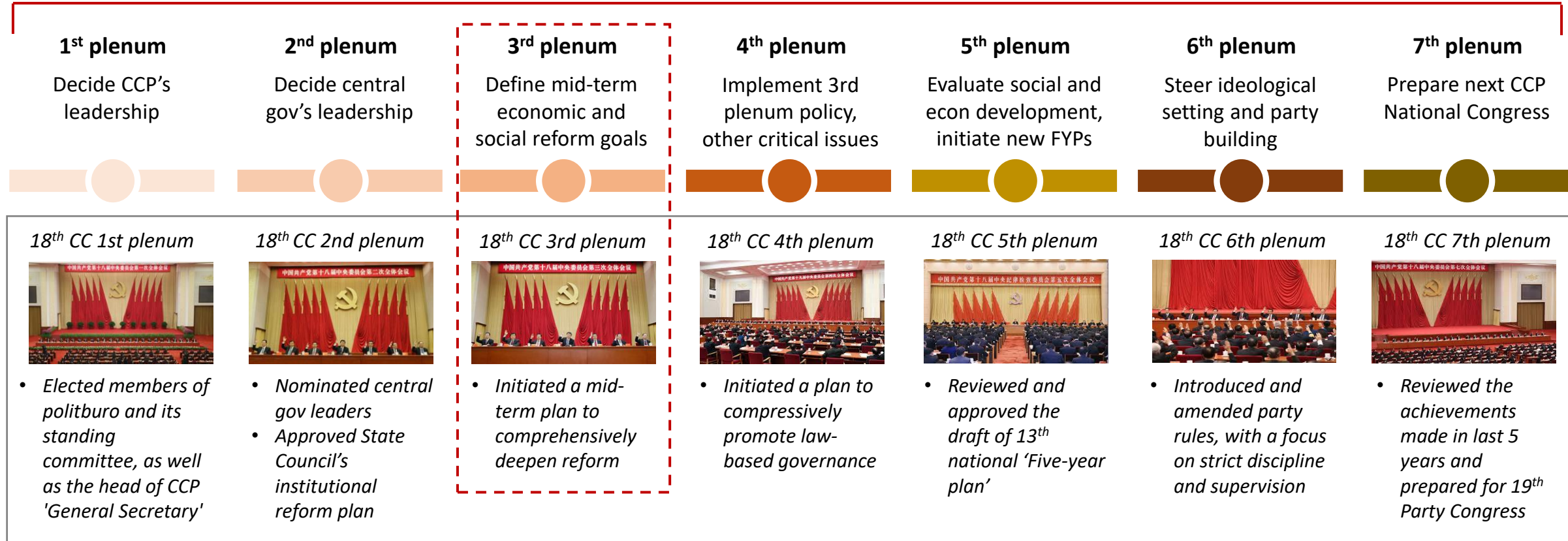


The CC holds 7 plenary meetings in each 5-year term, focused on top-level decisions on party and state affairs

Central Committee (CC)
(205 members + 171 alternate members)

... customarily holding 7 plenary meeting during a 5-year term

Customary focus of plenary meeting, 18th CC reference

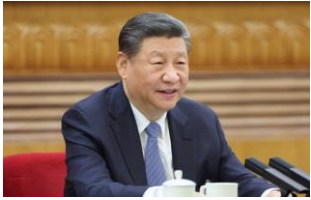


While all plenary meetings are important, the 'Third Plenum' focuses on top-level policymaking focused on structural reforms

Reviewing past Third Plena: 1978 and 1993 seen as historically most important in shaping China's development

	11 th CC Third Plenum (December 1978)	12 th CC Third Plenum (October 1984)	14 th CC Third Plenum (November 1993)	16 th CC Third Plenum (October 2003)	18 th CC Third Plenum (November 2013)
Party leadership	Led by Deng Xiaoping	Led by Deng Xiaoping	Chaired by Jiang Zemin	Chaired by Hu Jintao	Chaired by Xi Jinping
Key policy contribution	<ul style="list-style-type: none"> Start reforms in rural area by replacing 'collective farming' with 'household contract', stimulated food production 	<ul style="list-style-type: none"> Made firm decisions to proceed economic institutional reforms Guidance: multi-type (多种形式) economy and opening-up 	<ul style="list-style-type: none"> Set framework of building a 'socialist market economy', with market playing a "fundamental" role in resource allocation 	<ul style="list-style-type: none"> Set goals to further improve the 'socialist market economy' Stressed mixed-ownership, property right protection, etc. 	<ul style="list-style-type: none"> Coordinate market forces and government function, while market is given a "decisive" role in resource allocation
Significant outcome(s)	<ul style="list-style-type: none"> CCP's working focus shift from 'class struggle' to 'socialist modernization' China's shift towards economic reform and opening-up 	<ul style="list-style-type: none"> Reforms promoted nationwide with focus shifting from rural to urban areas 	<ul style="list-style-type: none"> After a decade of deliberation inside China, this plenum solidified the ideological and policy foundation for such market reforms 	<ul style="list-style-type: none"> Follow-through to enhance the building of China's 'socialist market economy' 	<ul style="list-style-type: none"> Broadened and deepened reforms to liberalize economy, strengthen rule of law and improve social welfare
Importance in CCP perception today	●	◐	●	◐	◐

Pre-'Third Plenum': 'document drafting group' led by Xi over period of 8 months – various consultations



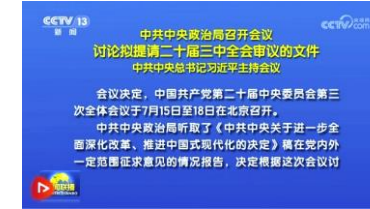
Nov. 2023 onwards



Nov. 27, 2023 – Dec. 7, 2023



Dec. 8, 2023 – May 6, 2023



May 7, 2024 – July 2024

July 15, 2024

Set up the “Third Plenum Document Drafting Group”
(文件起草组)

Consultations and deliberations – 1st round

First meeting of “Third Plenum Document Drafting Group”

Consultations and deliberations – 2nd round

Politburo decided to set up the “Third Plenum Document Drafting Group”, and **Xi Jinping personally acted as the “group leader”** of the Drafting Group; Wang Huning, Cai Qi and Ding Xuexiang serve as “deputy group leaders”

Local governments and “some cadres and general population” were consulted to gather opinions on the **general topic, framework, and important measures** of the ‘Third Plenum’ and “the resolution” (决定)*

The **first plenary meeting** of the “Third Plenum Document Drafting Group” was held on **Dec. 8, 2023**, marking the **official kick-off** of document drafting and preparation of the ‘Third Plenum’

The drafts of ‘Third Plenum’ documents were sent to “a certain range within the Party, leaders of other parties, All-China Chamber of Industry and Commerce, non-partisan persons, **companies, experts and scholars**”, and gathered **1911 suggestions, 221 changes** were made accordingly

>> Start of ‘Third Plenum’

>> During this drafting process, the **PBSC held 3 meetings** and **Politburo 2 meetings** to review and revise ‘Third Plenum’ documents

* Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization (中共中央关于进一步全面深化改革、推进中国式现代化的决定)

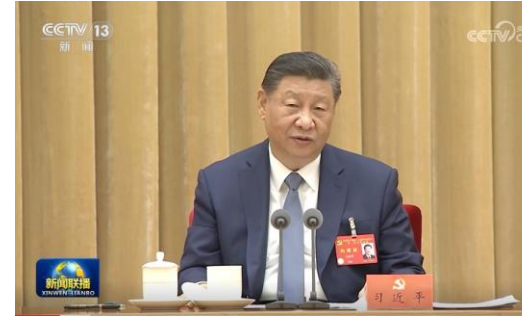
Key events of 4-days lasting ‘Third Plenum’ – followed by press conference and Politburo meeting



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



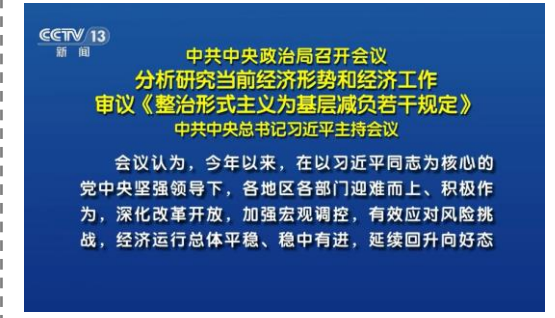
Attendees of ‘Third Plenum’ **formally passed** the final version of “the resolution” (决定) by raising hands



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’

Governance concepts: 'Third Plenum' doubles use of 'mechanisms/procedures' showing focus on effectiveness

Chinese reforms address three governance levels

> From concept to specific approach >

1 Fundamental system / rule (制度)

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

2 Organization / functional framework (体制)

- 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)

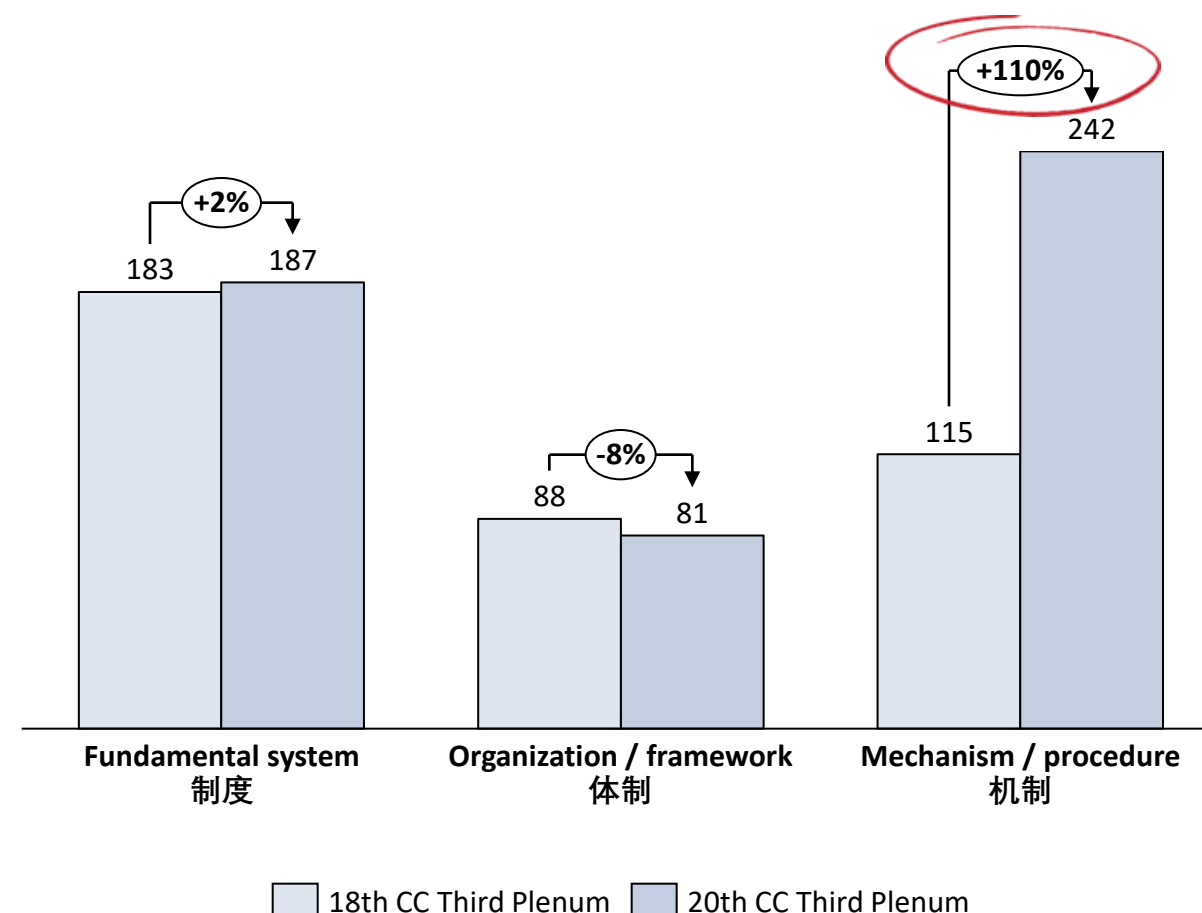
3 Mechanism / procedure (机制)

- 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

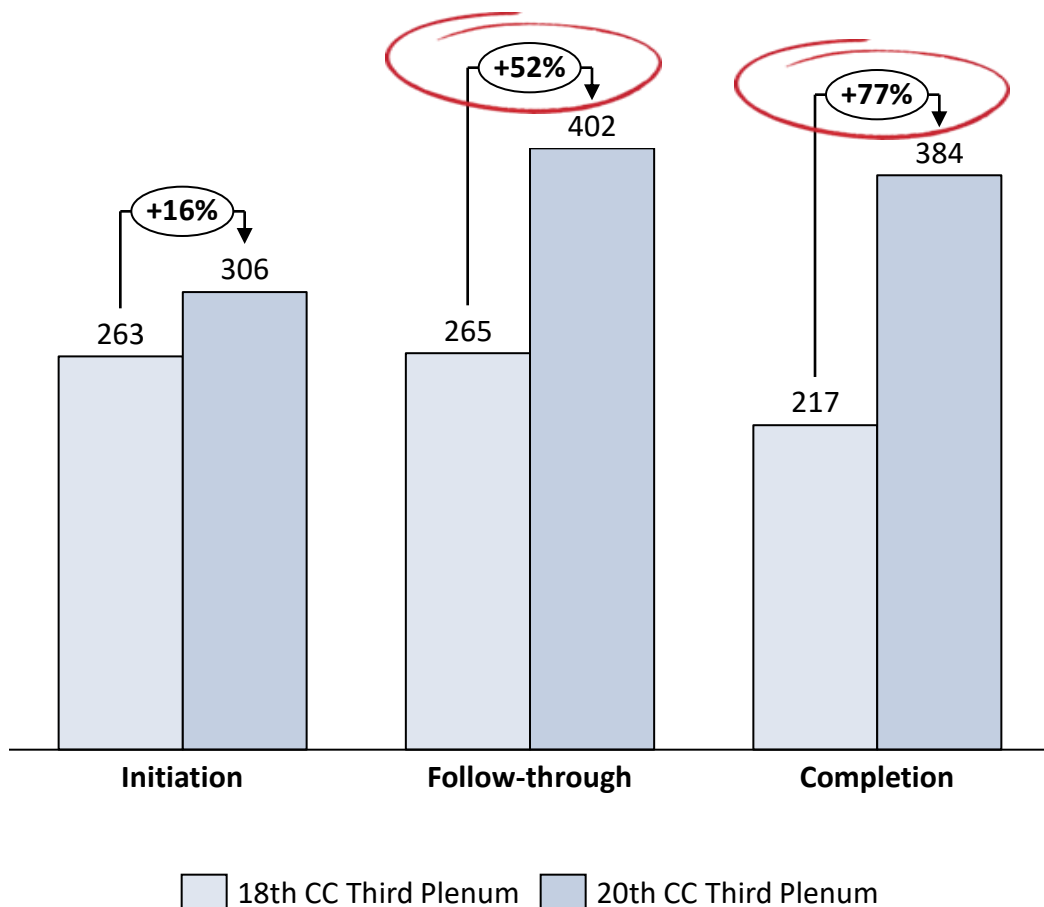


However, the "decision"-text's (total of 603 sentences) policy substance are mostly 'reform measures' (改革举措), estimated to be >300

Polymaking verbs: Third Plenum's key polymaking verbs indicate focus on 'follow-through' and 'completion'

Frequency of 19 key polymaking verbs across 3 life-cycle categories

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



Note: one-to-one mapping of 3 categories and 19 key polymaking verbs in next backup slide

Deep-dive: frequency of 19 key polymaking verbs

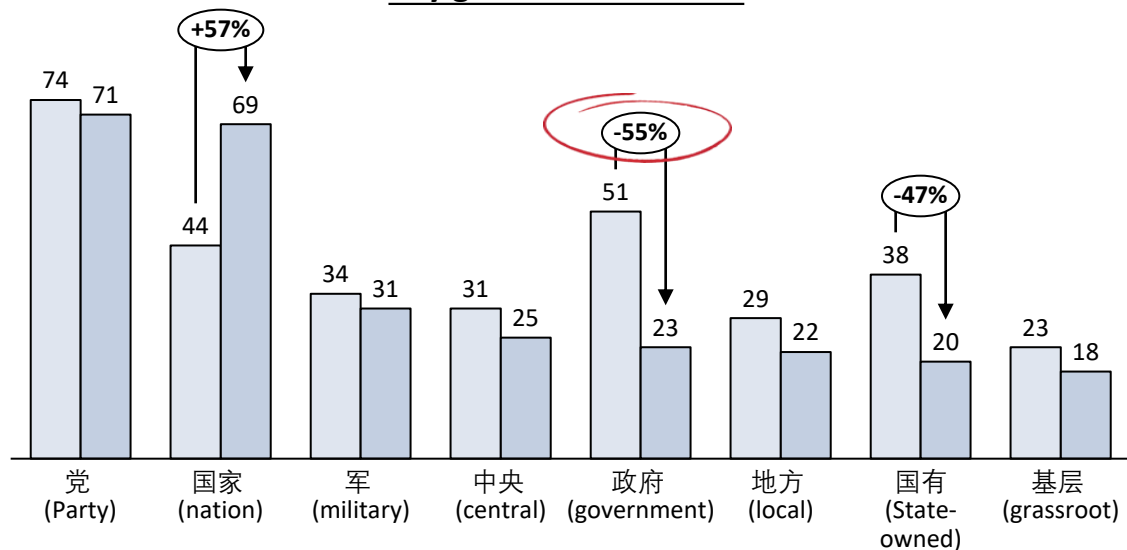
18th CC Third Plenum vs. 20th CC Third Plenum



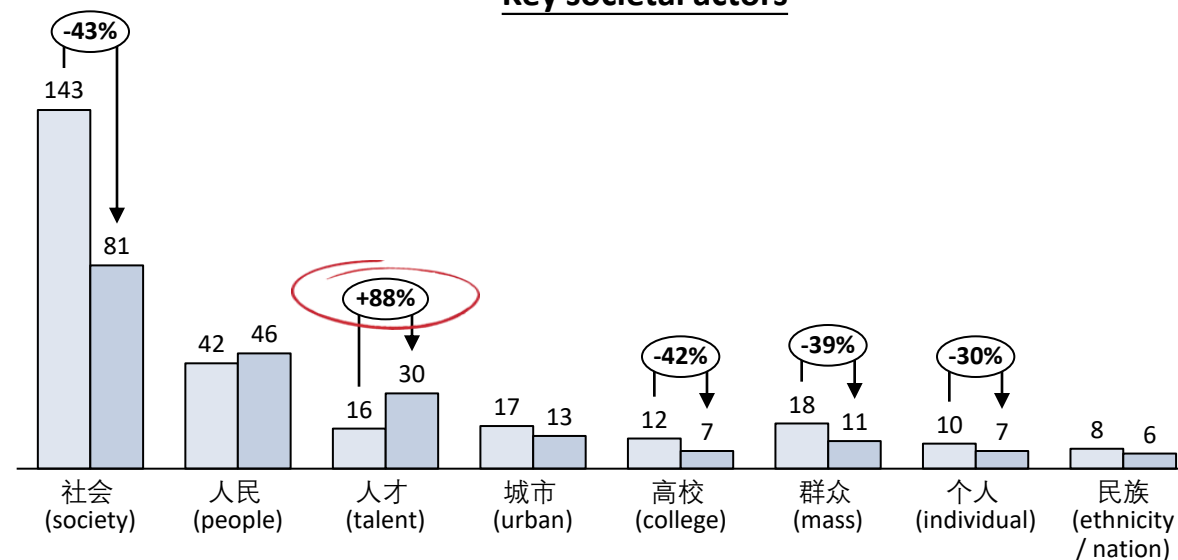
Actors/levers: keyword analysis reveals more emphasis on topics such as talent, finance, industry & technology

Keyword frequency analyses: 18th CC Third Plenum vs. 20th CC Third Plenum

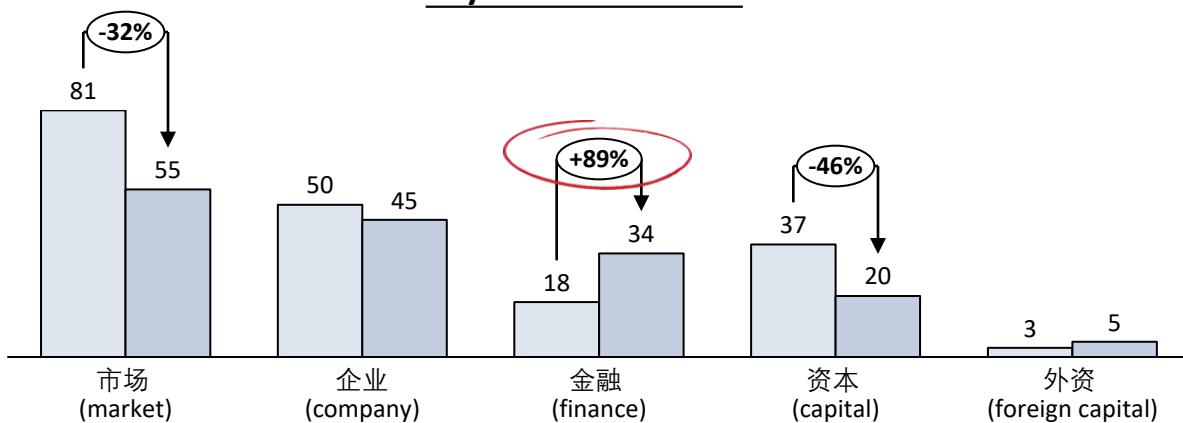
Key government actors



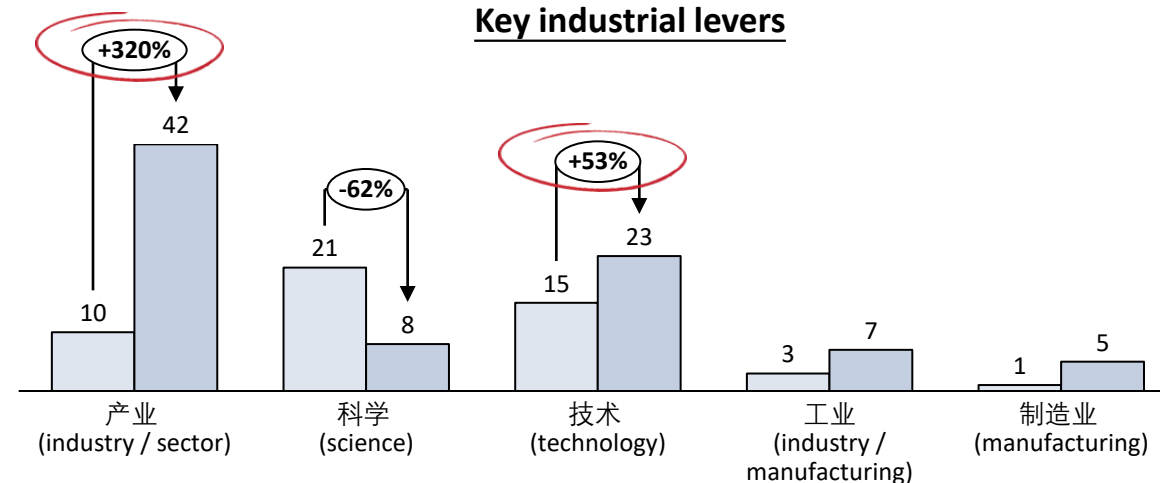
Key societal actors



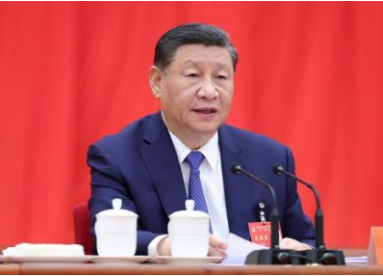
Key economic actors



Key industrial levers



Baseline analysis: in "explanation" (说明), Xi assesses key internal and external factors faced by China today



Xi Jinping speaking at the 20th CC Third Plenum

In the "explanation" (说明), he stated in the beginning of the document considerations, internal and external factors constituting where China stands now

Xi's "explanation" addresses a series of internal factors...

There's a need to improve China's socialist system

- China's socialist system is not perfect, and it's a **"dynamic process"** to improve the **socialist system** and adapt to new changes
- With this dynamic improvement, CN can transform its **institutional advantages (制度优势)** to **effectiveness of governance**

China's current development is unbalanced and inadequate

- The **Principal Contradiction (主要矛盾)** facing the Chinese society today has changed
- China's current status of development is **unbalanced and inadequate (发展不平衡不充分)**

China faces nine key development issues

- Xi Jinping listed **nine key development issues** China faces today:
 - 1) **market system** not robust and not fully developed
 - 2) relation between **government and market** not yet sorted out
 - 3) **innovation** capabilities not yet sound
 - 4) **industrial system** "big but not strong, complete but not refined" (大而不强、全而不精)
 - 5) **bottleneck** technologies
 - 6) **agricultural** foundation not strong enough
 - 7) urban / rural / regional **imbalance**
 - 8) **social security** still has shortcomings
 - 9) **environmental** problems still not fully solved

... and diagnoses a worsened external environment

The world is undergoing major changes unseen in a century

- China face **"major changes unseen in a century" (百年未有之大变局)**, and these changes are "accelerating their evolution"
- Frequent regional conflicts and unrest, with **increasing global problems** taking place around the world

More suppression and containment from outside

- The **"suppression and containment" (打压遏制)** from the outside world continues to escalate
- There are increasing uncertainties, with **"black swan" (黑天鹅)** and **"grey rhino" (灰犀牛)** events possibly occurring at any time

Opportunities, risks and challenges co-exist

- China is in a time that "strategic opportunities, risks and challenges coexist" (战略机遇和风险挑战并存)
- China needs to further deepen reforms, using its sound systems to prevent and resolve risks, eventually **"creating new opportunities among crises, and opening up new prospects among changes" (在危机中育新机、于变局中开新局)**

Note: words in "x" are direct quotes/use of wordings by Xi Jinping in his "explanation"

Principles: compared to 2013, 'Third Plenum' uses eight evolved reform principles, shaping reform measures

01 Evolved "purpose" of China's reforms



- "Reform is necessary for China to **gain competitive advantages** in a situation with **100-year unseen changes**"
- "A **critical time to build China into a major power**" (强国建设)
 - Key policy examples: *innovation, macro governance, trade policy, etc.*

02 Expectation management – to sustain reform determination



- "The reform and opening-up is a **continuous process** and there is **no definitive end**" (改革开放只有进行时, 没有完成时)
- "All party members should **prioritize reforms**"
 - Key policy examples: *innovation, high-level opening-up, party system improvement*

03 More systemic approach in reforms



- "The reform should be made in a way of **system integration**" (系统集成)
 - Key policy examples: *innovation, macro governance, coordinated urban-rural development, etc.*

04 Policy coordination and effective implementation



- "Coordinate the **policymaking** (政策统筹协调)"
- "Pay more attention to **results and effectiveness**" (更加注重改革实效)
 - Key policy examples: *innovation, fertility support system, national security system, etc.*

05 New growth dynamics through reforms



- "High-quality development (高质量发展)"
- "New-quality productive forces" esp. disruptive technologies like AI, quantum, bio, etc.
 - Key policy examples: *'patient capital', tax system reform, coordinated/balanced regional development, etc.*

06 External pressure as driving force for reforms



- "Complicated international and domestic environment (纷繁复杂的国际国内形势)"
- "Tech and industrial revolution" (科技与产业革命)
 - Key policy examples: *technological self-reliance, trade risk monitoring, anti-foreign sanction, etc.*

07 Security interests pervasively shaping reforms



- "Coordinate high-quality development and high-level security" (统筹高质量发展与高水平安全)
- "National security system" (国家安全体系)
 - Key policy examples: *macro governance, cross-boarder data transfer, state capital management, etc.*

08 More centralized party leadership in reforms



- "The party makes decisions related to all aspects of reforms" (党的领导贯穿改革的各方面全过程)
- Enhanced **ideological education** for party leadership in reforms
 - Key policy examples: *law making, ideological work responsibility, social governance, etc.*

Key policy changes: compared to NPC 2024, 30 entirely new ‘reform measures’ across 8 reform areas identified

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

Economic reforms		Socialist market economy <i>Cf. deep-dive 1</i>	<ul style="list-style-type: none"> • 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
		Innovation policy <i>Cf. deep-dive 2</i>	<ul style="list-style-type: none"> • 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 <i>Cf. deep-dive 3</i>	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Systemic policy design and effective policy coordination – horizontally among ministries • Improve financial capability and granting more financial autonomy for local governments
		Opening-up	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • More effective governance on all-media channels and (esp. online) public opinion
Security reforms		Coordinate development and security	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Easier financing for POEs, e.g. lower borrowing cost 	<ul style="list-style-type: none"> Ensure national treatment for FIEs regarding access to factors of production
Market access	<ul style="list-style-type: none"> Promote market-oriented reforms in competitive segments of sectors, e.g. in energy, railway, telecom and public utilities 	<ul style="list-style-type: none"> Remove market access barriers for POEs to e.g. infrastructure construction and other types of large public projects 	<ul style="list-style-type: none"> Shorten FDI negative list Remove FDI restrictions in manufacturing sector Gradually open market of finance, telco, healthcare...
Legal protection	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> <i>Private Economy Promotion Law</i> Supervision on fee over-charging and overdue/late payments to POEs (by SOEs) 	<ul style="list-style-type: none"> Build a market-oriented, rule-based, international business environment Ensure legal rights and interests of FIEs in China
Governance	<ul style="list-style-type: none"> More effective evaluation of SOE performance incl. how SOEs contribute to national strategic goals 	<ul style="list-style-type: none"> POE credit evaluation Guide POEs to improve self-governance, enhance compliance and risk control 	<ul style="list-style-type: none"> n/a
Function	<ul style="list-style-type: none"> Direct state-owned capital to sectors of public interest, e.g. security and public service, plus to strategic emerging industries 	<ul style="list-style-type: none"> Allow POEs to lead major national S&T projects Open public research resources and facilities to POEs 	<ul style="list-style-type: none"> Support FIE in cooperation along the supply chain

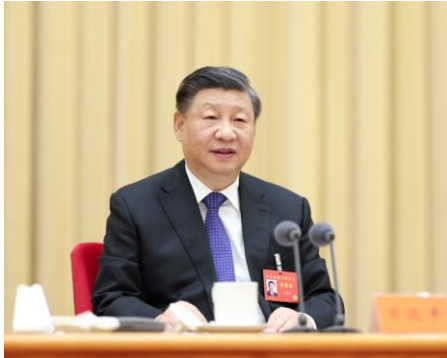
CMG assessment

- 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

Deep-dive 2: 'Third Plenum' vows to deepen integration of industry-academic-research (产学研) value chain

	Talent cultivation	Basic research	Need identification	Applied research	Product/tech R&D	Commercial application	Market feedback
Universities	<ul style="list-style-type: none"> Targeted scientific talent cultivation General knowledge 	<ul style="list-style-type: none"> Increase the share of S&T expenditure on basic research, especially subjects with "urgent national needs" 	<ul style="list-style-type: none"> Encourage research with "high risk and high value" Encourage diversification of research topics 	<ul style="list-style-type: none"> Give scientists greater flexibility and power to self-decide directions Improve research result transfer to industries 	<ul style="list-style-type: none"> Conduct joint researches, guided by practical needs of companies (企业主导的产学研深度融合) 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A
Research institutes	<ul style="list-style-type: none"> N/A 						
SOEs	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Conduct "original Innovation" (原始创新) Encourage capable POEs to lead national research projects Further open-up major scientific research infrastr. (国家重大科研基础设施) to POEs 	<ul style="list-style-type: none"> Emphasize research serving national strategic needs 	<ul style="list-style-type: none"> Focus on forward-looking, strategic, and emerging industries (前瞻性战略性新兴产业) Both R&D for the market as well as encouraging capable POEs to develop cutting-edge technologies 	<ul style="list-style-type: none"> Evaluate SOEs not only from market success but also their "strategic missions" (国有企业履行战略使命评价制度) Mostly market-oriented commercialization and product feedback 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A
POEs	<ul style="list-style-type: none"> N/A 						
FIEs	<ul style="list-style-type: none"> N/A (no specific mentioning in industry-academic-research cooperation, regarding early-phase innovation) 				<ul style="list-style-type: none"> Expand the catalog of industries that encourage foreign investment and reasonably reduce the negative list for foreign investment access Improve FIE market access with "national/local treatment" (国民待遇) 		
Finance	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Strengthen financial support for national projects and tech-SMEs Encourage more long-term investment in early-phase innovations, especially in "hard technologies" (硬科技) 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A
International cooperation	<ul style="list-style-type: none"> Encourage foreign high-level science and engineering universities to open campus in China Promote international S&T exchanges, and encourage international S&T organizations to establish offices in China 				<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A

Deep-dive 3: Third Plenum previews emerging industrial blueprint focused on “new quality productive forces”



Xi at Central Economic Work Conference (CEWC)

“The industrial policy making shall concern both development and security needs of China”

“产业政策要发展和安全并举”

High-Quality Development

Top-level industrial policy efforts...

Developing ‘new-quality productive forces’

- Cultivate high-tech emerging industries
- Build early leading edges in future industries
- Upgrade traditional industries with new techs



Integration of real and digital economy

- Promote digitalization in manufacturing to raise efficiency and supply high-end products
- Develop a robust digital economy



Leveraging growth potential of service sector

- Accelerate standard setting of service provision
- Cultivate business services (生产性服务) and diversify consumer services (生活性服务)



Building modernized infrastructure

- Improve standard setting of new infrastructure construction e.g. digital, industrial, logistics
- Digitalization of traditional infrastructure



High-level security

Enhancing supply-chain resilience and security

- Develop self-reliant and controllable supply chains, ensuring alternative supplies and storage



Enhancing data security

- Data governance incl. cross-border data transfer



... key related policy enablers

New system of mobilizing national S&T resources

- Make disruptive tech innovation and tech breakthroughs with public facilities/programs
- Organize research activities in frontier areas



Talent cultivation and incentivization

- Expand supply of high-tech talents
- Improve evaluation of research outcome and incentivize S&T talents with higher income



Leverage market forces to support innovation

- Allow POEs to lead major S&T projects
- Promote commercialization of R&D outcome



Financial resource guarantee

- Fiscal guarantee for major S&T projects
- Ensure financing of tech innovation incl. via VC

Opening-up

- Encourage setting-up of intl. S&T orgs/facilities
- Foster intl. innovation cooperation e.g. via BRI



National security system

- Risk monitoring: supply chain, tech bottlenecks
- Technological self-reliance



Opening-up

- International supply-chain cooperation



= significance

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

Structural transitions	16th CC Third Plenum (2003)	18 th CC Third Plenum (2013)	20 th CC Third Plenum (2024)
<i>Economic transition and industrial upgrading</i>	<ul style="list-style-type: none"> Enterprise-centered innovation system Talent pool 	<ul style="list-style-type: none"> Innovation incentives, IP protection Gov support to S&T development 	<ul style="list-style-type: none"> New-quality productive forces SSSR, climb industrial value chain Digitalization and decarbonization Growth of service sector
<i>Market-oriented reforms and market governance</i>	<ul style="list-style-type: none"> POE market access, property rights SOE reform, open monopolistic sectors Unified market, market of factors Economic legal framework 	<ul style="list-style-type: none"> Property rights SOE reform esp. "mixed ownership" "Modern market system" 	<ul style="list-style-type: none"> High-level socialist market economy: <i>more equal public vs private economy, unified market, factor liberalization, improved governance, anti-monopoly</i>
<i>Economic globalization</i>	<ul style="list-style-type: none"> Institutional framework for opening-up Introduction of foreign tech and talents Outbound investment support <p>Core: market- and institutional reforms</p>	<ul style="list-style-type: none"> Relaxing FDI restrictions Free-trade zones Expanding in-land opening-up 	<ul style="list-style-type: none"> High-level opening-up Alignment w/ global economic standards Improve business environment for FIEs Engage in global economic governance
<i>Social rebalancing</i>	<ul style="list-style-type: none"> Fair and inclusive income distribution 	<ul style="list-style-type: none"> Transfer payment Urban-rural integration Well-structured income distribution <p>Initial comprehensive reform</p>	<ul style="list-style-type: none"> Coordinated regional development New urbanization and rural rejuvenation "Common Prosperity" New development model of real estate
<i>'Domestic demand system'</i>	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Domestic demand expansion Long-term pro-consumption Public investment as lever Fertility support system
<i>Economic security</i>	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Coordinate development and security Technological self-reliance Supply-chain resilience <p>Full-scale reform efforts</p>

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 goeconomic focus on industrial upgrading/security since 14FYP



Agenda

- 1 Broader policy context: 14th Five-Year-Plan (2021-2025) as “strategic shift” 5'
 - 2 Evolving industrial policy factors for FIEs in China’s business environment 25'**
 - 20th CC ‘Third Plenum’ (July 2024)
 - **China’s “de-risking”**
 - Industrial policy blueprint for chemicals sector under ‘High-Quality Development’
 - 3 How foreign chemical MNCs in China respond to evolved environment 5'
- Discussion / Q&A 20'

Conceptualization: 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)

16 concepts under the 'Holistic View of National Security' – eight more relevant to foreign business

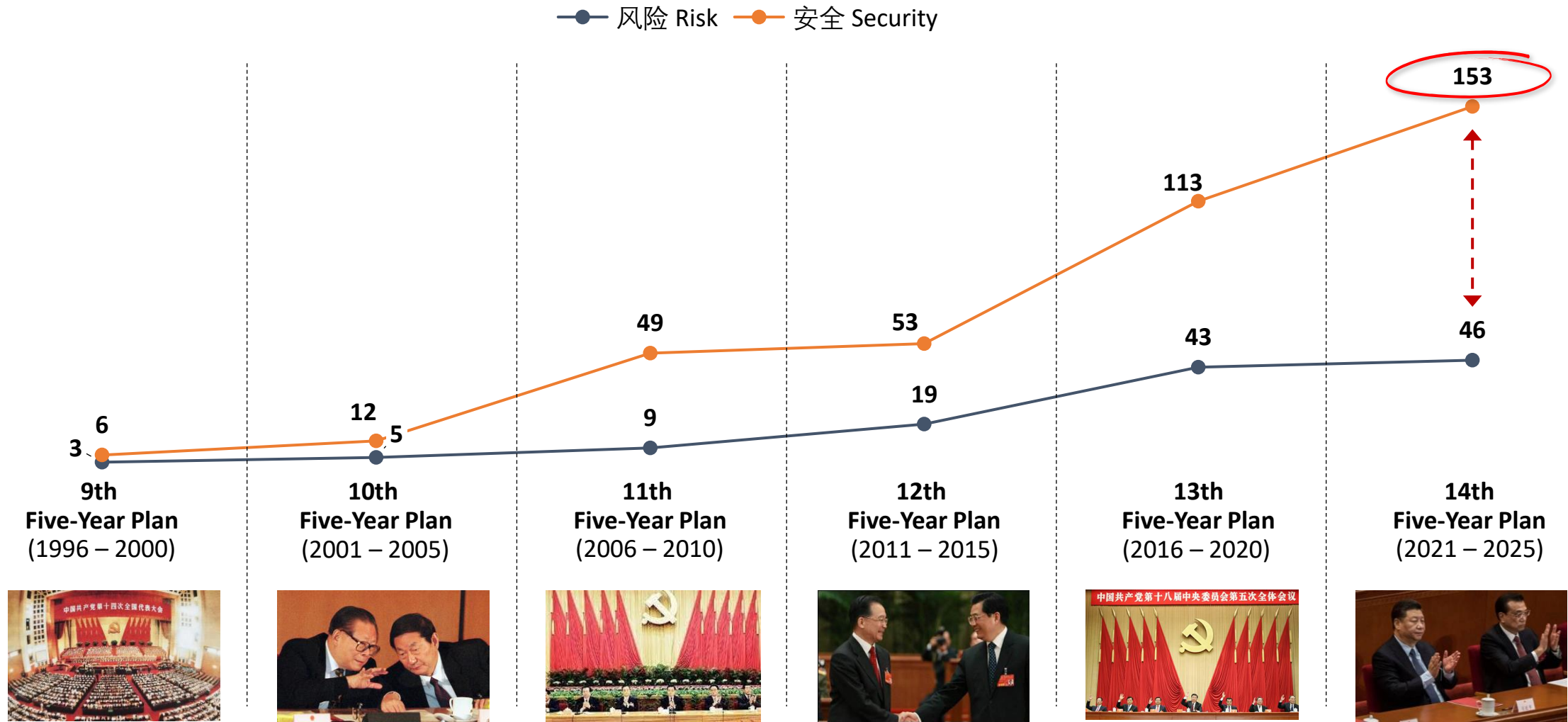
	Security concepts	Emergence	FIE relevance		Security concepts	Emergence	FIE relevance
<i>Traditional</i>	Political Security	1949	◐	<i>Non-traditional</i>	Ecological Security	2000s	◐
	Military Security	1949	◐		Overseas Interests	2000s	◐
	Territory Security*	1949	◐		Societal Security	2014	◐
Resource Security	1949	●	Technology Security		2014	●	
Nuclear Security	1949	◐	Economic Security		2014	●	
Cultural Security	early 2000s	◐	Outer Space Security		2018	○	
Biological Security	2002 (SARS)	●	Deep Sea Security	2018	○		
Cyber Security	2000s	●	Polar Security	2018	○		

= Security concepts most relevant to business

= Introduced in the Xi era

Evolving perception: risk perception and security needs have consistently risen during past three decades

Mentions of “risk” (风险) and “security” (安全) in China’s Five-Year Plans since the 9th FYP



'Toolbox': 6 key policy measure types for China to management risk and enhance economic security

	1 Self-reliance 自立自强/自主可控	2 Key/core tech breakthroughs 攻关/突破	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	Weaponisation or abuse of sensitive tech	Inability to retaliate and deter
Scope	Critical industrial input	Tech	Resources (energy, food, critical minerals)	Tech (mature vs emerging strategic tech)	Tech	Foreign influence and pressure
De-risking 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
Exemplified measures	<ul style="list-style-type: none"> 'Hidden champions' Supply-chain ecosystem Storage capacity 	<ul style="list-style-type: none"> New system for mobilizing resources nationwide e.g. special R&D projects 	<ul style="list-style-type: none"> Trade policy International supply-chain cooperation e.g. via BRI SOE-led FDI for e.g. critical minerals 	<ul style="list-style-type: none"> Mature tech: HSR, new energy, communication equipment Emerging: quantum, AI, gene tech 	<ul style="list-style-type: none"> Data regulation esp. cross-border data transfer Restricting FIEs in sensitive tech areas e.g. bio 	<ul style="list-style-type: none"> Export Control Law Anti-Foreign Sanctions law Foreign Relations Law Anti-Espionage Law

'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)



全国首批！广州入选国家产业链供应链生态体系建设试点城市

听全文 发布时间：2022-10-31
来源：市工业和信息化局

近日，工业和信息化部公布正式确定国家首批产业链供应链生态体系建设试点城市，广州等12个城市入选。

据工业和信息化部公布，开展产业链供应链生态体系建设试点，是提升产业链供应链创新能力、增强其稳定性和竞争力的重要举措。试点城市要通过机制创新、要素集聚、平台搭建、数智赋能和政策支持，推动区域产业链供应链生态体系迭代升级，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。通过试点，探索形成“遴选试点—加强指导—资源倾斜—滚动评估—持续优化—推广应用”的工作

"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”

1 'Self-reliance' example: policy system to make high-tech SMEs thrive and fill critical supply chain gaps

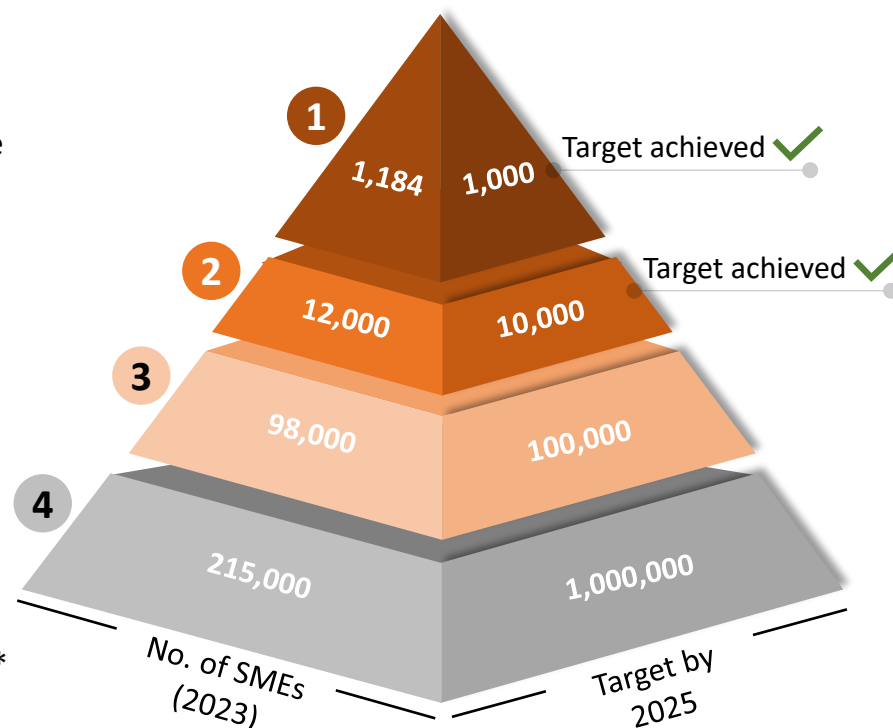
In the pyramidal system, SME certificates last three years

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



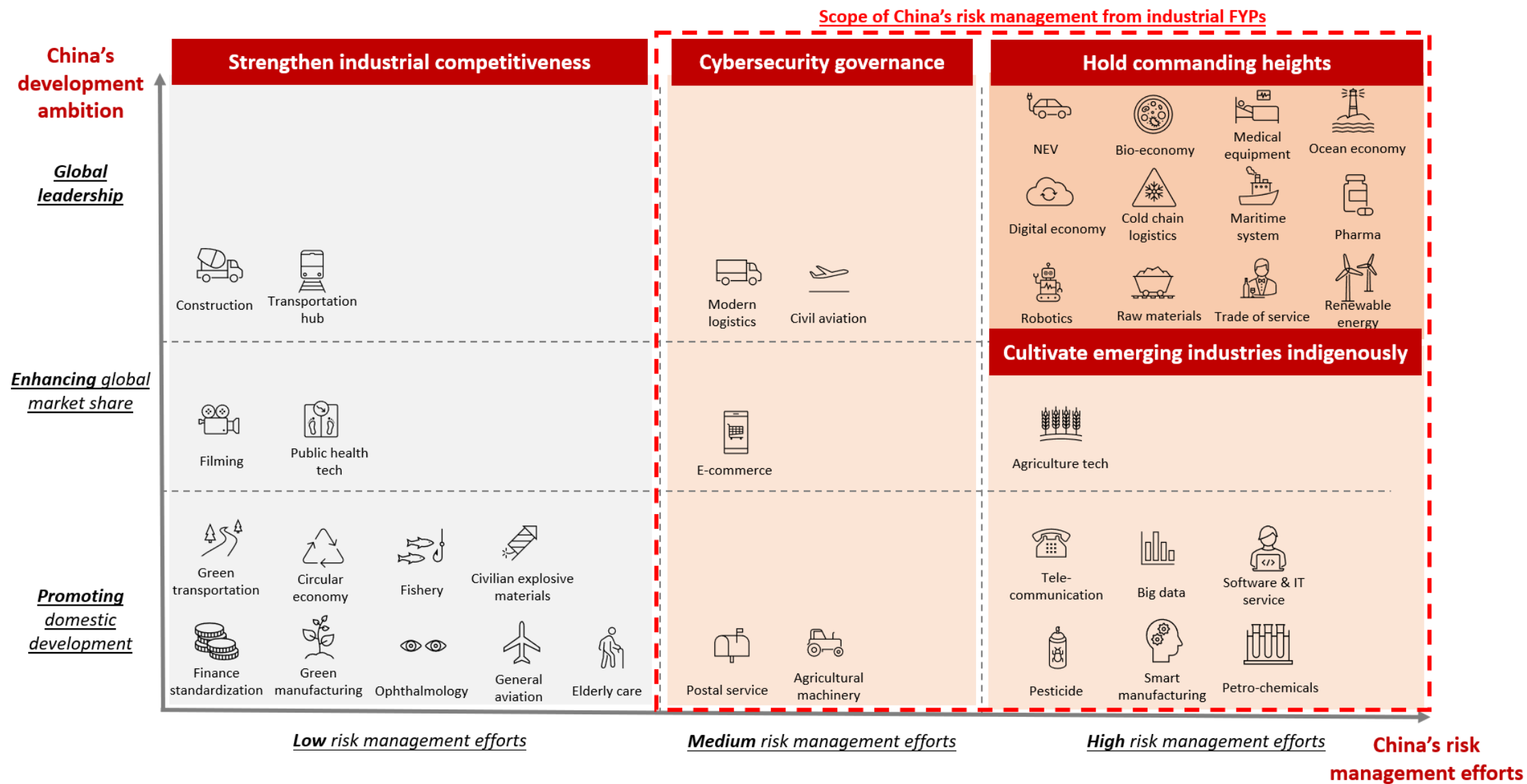
3 Specialized SMEs (专精特新中小企业)

- **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

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



Outlook: finetuning of China's risk management approach?

Nuancing risk management policy



Central Economic Work Conference, Dec 2023

- “**Dynamic balance**” [动态平衡] is needed in coordinating development and security
- ... with goal to ensure “**positive interaction**” [良性互动] between “high-quality development” [高质量发展] and “high-level security” [高水平安全]”

Innovating ‘security thinking’



Two People's Daily Op-eds on high-quality development and high-level security, Feb 2024

- **Innovation** of security strategy, set **borders** [边界] and **bottom-line** [底线] of security thinking
- **Avert** pursuit of security by sacrificing **development interest** (不能因为求安全而裹足不前)

Development/growth re-emphasized



National People's Congress, March 2024

- “**Under premise of ensuring bottom line of security** [坚守安全底线的前提下], **devote more efforts to development** [更多为发展想办法] and give more support to business”
- ... and “coordinate high-quality development and high-level security, **effectively boosting economic vitality** [切实增强经济活力]”

Synoptic view: all trade blocs adopt security-driven policies, China with strongest focus on supply chain security



Key IR concept(s)	<ul style="list-style-type: none"> “Lead the reform of global governance” 	<ul style="list-style-type: none"> “Out-competing our rivals to shape the international order” Democracies against autocracies 	<ul style="list-style-type: none"> Strategic autonomy
Economic security	<ul style="list-style-type: none"> “Coordinate development and security” 	<ul style="list-style-type: none"> National security / national security strategy 	<ul style="list-style-type: none"> “De-risking” / economic security strategy (ESS)
Industrial competitiveness	<ul style="list-style-type: none"> Build a modern industrial system Hold “commanding heights” (in GVCs) 	<ul style="list-style-type: none"> Maintain strong industrial base Control of strategic sectors 	<ul style="list-style-type: none"> Maintain strong and sovereign industrial base
Tech leadership	<ul style="list-style-type: none"> Indigenous innovation Overcome “bottleneck technologies” Leadership in emerging tech 	<ul style="list-style-type: none"> Foundational technologies (“maintain as large of a lead as possible”) Competitive edge in strategic technologies 	<ul style="list-style-type: none"> Maintain and grow technological edge Lead the twin transitions
Supply chain security	<ul style="list-style-type: none"> Strengthen “self-reliance” Ensure “self-circulation” in extreme case One alternative source for important goods 	<ul style="list-style-type: none"> Resilient supply chains 	<ul style="list-style-type: none"> Resilient supply chains Address critical dependencies
Coercive logic	<ul style="list-style-type: none"> “Trump cards” (<i>defensively</i>) 	<ul style="list-style-type: none"> Denying China tech access / “de-coupling” 	<ul style="list-style-type: none"> n/a
Geoeconomic structures and influence	<ul style="list-style-type: none"> Third-market connectivity / access (via BRI) Asia-Pacific economic integration (RCEP) 	<ul style="list-style-type: none"> “Techno-industrial base with like-minded” USD dominance Indo-Pacific (e.g. IPEF) 	<ul style="list-style-type: none"> “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

Agenda

1 Broader policy context: 14th Five-Year-Plan (2021-2025) as “strategic shift” 5’

2 Evolving industrial policy factors for FIEs in China’s business environment 25’

- 20th CC ‘Third Plenum’ (July 2024)
- China’s “de-risking”
- **Industrial policy blueprint for chemicals sector under ‘High-Quality Development’**

3 How foreign chemical MNCs in China respond to evolved environment 5’

Discussion / Q&A 20’

Industrial policy blueprint with 6 pillars to guide China's chemicals sector under High-Quality Development

6 policy pillars to strengthen China's chemical industry...

...with many key policies published since 14th FYP



1

Industrial Upgrading

- Improve overall **competitiveness** and sustainability
- Phase out **outdated production capacities**



2

Green Development

- Reduce **pollution** and improve energy **efficiency**
- **Carbon peak** by 2030, carbon neutral by 2060



3

Production Safety

- Strengthen safety management systems to **reduce accidents** and enhance safety



4

Technological Innovation

- **Tech breakthrough** of new materials / products
- Encourage R&D and **independent innovation**



5

Regional and Spatial Development

- Encourage to expand into **resource-rich Central and Western China** to optimize industry layout



6

International Cooperation & Security

- Promote **Chinese** chemical companies' **going-out**
- **Ensure security** in raw materials, energy and tech

- MIIT, NDRC, et al. (2022): *Guiding Opinions on High-quality Dev. of Petrochemical and Chemical Industry 14th FYP*
- MIIT, NDRC, et al. (2023): *Work Plan for Stable Growth of Petrochemical and Chemical Industry*

Cf. next slide

- NDRC, NEA (2024): *Action Plan for Low-carbon Transformation of Coal Power (24-27)*
- MIIT (2021): *14th FYP Industrial Green Development Plan*
- NDRC, NEA, et al. (2021): *14th FYP Renewable Energy Devel.*

- MEM (2023): *Chemical Ind. Park Safety Mgmt. Guidelines*
- MEM (2022): *14th FYP Hazardous Chemical Safety Production Planning*

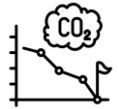
- MIIT, NDRC, et al. (2024): *Plan for Innovation and Dev. of Fine Chemical Industry (2024-2027)*
- MIIT, NDRC, et al. (2024): *Work Plan for Digital Transform. of Raw Materials Industry (2024-2026)*

- CCCC, SC (2021): *Opinions on Promoting High-quality Development in Central China in the New Era*
- NDRC (2023): *Measures for Industrial Transfer Pilot Zones*

- NDRC (2022): *Guiding Opinions on Promoting High-Quality Dev. of the Belt and Road Initiative*
- NDRC, NEA (2022): *14th FYP Modern Energy System Planning*

Deep-dive: clear targets and measures to push for decarbonization and circularity in China's chemical sector

Policies* set clear targets for chemical decarbonization / circularity...



Reduce emission

Lower carbon and pollution emission

- By 2025, carbon emission per industrial value-add 18% lower than 2020
- By 2025, VOCs emission reduces by 10%+ compared to 2020
- By 2025, emission intensity of major pollutant (e.g., SO₂) 10% lower



Improve efficiency

Improve energy efficiency

- By 2025, energy consumption per industrial value-add to reduce by 13.5% compared to 2020, and water consumption per industrial value-add reduces by 16% compared to 2020



Promote recycling

Push for better recycling

- By 2025, comprehensive utilization rate of bulk industrial solid waste (e.g., coal gangue, fly ash, chemical gypsum, etc.) reaches 57%
- By 2025, recycling of major renewable resources reaches 480 M tons



Clean energy

Switch to lower carbon inputs

- By 2025, green and environmental protection industry total output reaches 11 trillion RMB (~1.5 trillion USD)
- Promote green hydrogen as substitution and reduce fossil utilization

... with support measures to help achieve these targets

Support green tech innovation

- Encourage **R&D** in green tech, particularly in **green hydrogen**, **carbon capture**, green transformation via **digital tech**, etc.
- Develop **biochemical industries** and promote biomass utilization and biorefining
- Set-up **national-/provincial-level green chemical research labs**

Carbon management

- Improve and expand coverage of **National Carbon Emissions Trading Market**, implemented since 2021
- Standardize **Renewable Energy Green Power Certificate**
- Promote **electrification transformation** and clean energy usage
- Strengthen **supervision** of high energy consumption companies

Set up pilots

- **Certification** of national-/provincial-level green processes, green products, green factories, green supply chains, green parks, etc.
- Establish **demonstration zones**, e.g., modern coal chemical industry demonstration zones and green and smart zones

Green finance support

- Provide **green credits** for companies' green transformation
- Various **tax exemptions** and **land support** for companies in pollution control, energy and water saving projects, wind and solar power projects, companies in batteries/new energy, etc.
- Encourage **investment** in environmental equipment, e.g., via **governmental subsidies**

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- Discussion / Q&A 20’

Select practices as observed among foreign chemical MNCs in China, responding to evolved environment



China/Asia footprint

- **Double down** on China and **investing** for deeper local capacities
- **“In China, for global”** supplying Asian markets, plus Australia and Europe (less to US)
- Parallel **investments across Asia**, e.g., KR, JP, IN, SG

Product development

- **Expanding local product portfolio** via M&A, in-house R&D, JVs or joint research with local universities
- Actively researching **green technologies** in China, e.g., carbon capture

Marketing and PGA

- Explicit messaging on **localization efforts and long-term commitment** to China
- Refining **PGA function**

“De-risking” practices

- Supply chain **auditing**
- Non-China **supply backups/alternatives**
- **Ringfencing** of China operations (e.g. data)
- Selective business with esp. **SOEs** (dual-use, Xinjiang footprint)
- **APAC HQ** moved outside of China
- Closer HQ-subsidary communication

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Key conclusions

- **‘Third Plenum’ focuses on implementation and effectiveness**
 - 30 new reform measures identified – e.g. in industrial policy, innovation policy or socialist market economy system
- **China’s “de-risking” is a top-level policy since the 14th Five-Year-Plan (2021-2025)**
 - Six measure types – self-reliance with biggest impact on foreign business, e.g. driving localization and local content requirements
- **Industrial policy blueprint for chemical sector in China with six pillars**
 - Industrial upgrading, green development, production safety, innovation, regional/spatial development and international cooperation
 - On green development: clear targets and measures to push for decarbonization and circularity in China’s chemical sector

Appendix

Air Liquide: double down on CN investments with business “density”, and enjoy resilient growth in 2023 / 2024

Lenses

Detailed practices per selected firm

1 HQ-CN branch interaction	CN management localization	<ul style="list-style-type: none"> China President & CEO is not local, and usually global rotations after a few years, but most management are local Chinese; promote diversity of employees and mid-level managers, e.g., European engineers working in various cities in China
	CN managers in global board/ExCo	<ul style="list-style-type: none"> N/A (General Secretary of the Group and member of the Group ExCo, Francois Abrial, overseas China business plus APAC)
	HQ’s perception of China	<ul style="list-style-type: none"> Resilience & growing, “we have enjoyed high single digit growth for 2023, and we do expect the same trend to continue in 2024 – though this may sound counterintuitive to what others announced or in the Press” Air Liquide CEO François Jackow
2 China/Asia footprint	China capacity building in recent years (investment, R&D, production) vs. in ASEAN, JP, KR and IN	<ul style="list-style-type: none"> Doubling down on investments in mainland China, e.g., \$60 M in Tianjin, \$200 M in Shanghai, \$100 M in Zhangjiagang, etc. Also announced expanding investments in Japan, Korea, Taiwan and Singapore, each project between \$50 M - \$300 M Financial derisking via local financing – take loans from banks in China to reduce exchange risks and cross-border transfers
3 Product development	Client segment (low, mid, premium)	<ul style="list-style-type: none"> Broad coverage as Group strategy for resilience, 120+ plants in CN serving broad segments, clients range from craftsmen to large SOEs/high-tech national projects; not only in developed Eastern China, but also in less developed Western China
	Product portfolio (vertical and horizontal expansion)	<ul style="list-style-type: none"> Expand the product portfolio in China, e.g., launched Air Liquide’s first biomethane production unit in China in 2023 Set up JVs with companies along value chain, e.g., new JV with a Sinopec subsidiary, MoU with Sinopec Group in hydrogen
	Product pilots for decarbonization/circular economy	<ul style="list-style-type: none"> Develop new solutions in hydrogen – aim to develop renewable hydrogen by 2030, with PEM water electrolysis technology
4 Marketing and PGA	General marketing	<ul style="list-style-type: none"> Demonstrate a strong long-term commitment to China in marketing, but also keep its French/international identity, e.g., most Air Liquide’s WeChat posts are bilingual in Chinese and English, it also has international business news besides China
	Strategic marketing	<ul style="list-style-type: none"> Emphasize local production and has gained access to SOEs and labs in sensitive industries, e.g., energy and semiconductor
	PGA	<ul style="list-style-type: none"> CN Presidents awarded as “investment ambassadors” (招商大使), “int. entrepreneur consultant” by several CN local gov. High-level PGA as Xi Jinping and Emmanuel Macron were both present at Sinopec and Air Liquide MoU signing ceremony
5 Sales channels	Direct/distributors/ecommerce	<ul style="list-style-type: none"> Most industrial clients via direct sales; for healthcare/beauty products, e.g., SEPPIC under Air Liquide, more via distributors
	Exports from China	<ul style="list-style-type: none"> “In China, for global”, Air Liquide and its JVs exports from China to Korea, Australia, Canada and several countries in Europe
	China desk overseas	<ul style="list-style-type: none"> N/A
6 Global supply chain	Role of CN suppliers globally	<ul style="list-style-type: none"> Air Liquide minimizes physical distances of the 120+ plants across China and their suppliers, with 1800+ local CN suppliers in materials & equipment, many become not only suppliers but also strategic partners; N/A share of CN suppliers in global
	Supply chain derisking	

Arkema: continued major investment in China to expand capacity and product range, driven by robust growth

Lenses

Detailed practices per selected firm

	Lenses	Detailed practices per selected firm
1	HQ-CN branch interaction	<ul style="list-style-type: none"> President of Greater China is a Chinese local executive, promoted in 2021 to succeed the previous president of French nationality; CN managers serve multiple APAC divisions, e.g., APAC President of Fluorochemicals, Marketing Manager
		<ul style="list-style-type: none"> N/A, most of the Board are French
		<ul style="list-style-type: none"> Rapidly-expanding & growing investment, "China's green transformation and high level of openness greatly enhance our confidence in China, contributing to more investments and fulfillment of our long-term commitment to Chinese market"
2	China/Asia footprint	<ul style="list-style-type: none"> Massive "doubling down" strategy on China, with new investments to expand capacity and product innovation, e.g., Peroxide plant expanded by 1.5 times, Tens of millions EUR in Changshu production base, €48M in Shanghai for R&D Multiple investment in Korea and India, e.g., Acquisition of PIAM (Korea) with €393 M, Double capacity of resins in India
3	Product development	<ul style="list-style-type: none"> Mid-to-high end, with innovative high-performance products offered to broad industries, ranging from national strategic industries to consumer goods sectors; also built long-term relationship with leading SOEs in high-tech industries
		<ul style="list-style-type: none"> Product innovation by forming corporate alliance, e.g., ZEBRA founded to exploit recyclable wind turbines Collaborative platforms with downstream, e.g., Automotive platform with Tier1 & OEMs creates high-performance polymers Expand product mix through acquisitions, e.g., Bostik for specialty adhesives, PMP Shanghai for engineering adhesive
		<ul style="list-style-type: none"> Design recyclable products to promote sustainability, e.g., Elium® thermoplastic resin, Rilsan®Pebax®Advanced Bio-Circular Recycle materials from packages and integrate into its products, e.g., powder coating resin, to reduce carbon emission
4	Marketing and PGA	<ul style="list-style-type: none"> Actively advocate its localization & digitalization strategy aligned with China's development path, involve international news of the group on WeChat to publicize global vision
		<ul style="list-style-type: none"> Strategic collaboration with companies to share resources in value chain, e.g., partner with Hyperion in fiber membranes
		<ul style="list-style-type: none"> Interaction with local governments in project investment and future plan, praised by local gov. for economic contribution
5	Sales channels	<ul style="list-style-type: none"> An integration of direct sales and distributors for both online & offline; establish a "Arkema+Distributors" business model on 1688 B2B ecommerce, attracting numerous distributors to join the online sales system Extensive export from China to other Asian countries, Europe and America, benefits from several export certificates, e.g., Certificate of Origin under RECP for Sartomer brings tariff concessions, with part of exports to Japan enjoying zero tariff
		<ul style="list-style-type: none"> N/A
6	Global supply chain	<ul style="list-style-type: none"> Remain committed to Chinese suppliers, especially value those with decarbonization actions and reward those who contribute to a resilient global supply chain

DSM: Deepening localization in China, as a strategic market and critical player in the global supply chain

Lenses

Detailed practices per selected firm

Lenses		Detailed practices per selected firm
1 HQ-CN branch interaction	CN management localization	<ul style="list-style-type: none"> President of DSM China is CN, who's worked for a telecommunications multinational corporation for 19 years, succeeding the previous CN president; Leaders of multiple business divisions in China are also localized N/A, the management board is fully Dutch, while supervisory board diversified in nationality within Europe Thriving market and plentiful R&D/talents, "Rapid growth in wellness sectors bolsters confidence in CN as a key strategic market and innovative center of global value chain", "Abundant R&D resources accelerate commercialisation of products"
	CN managers in global board/ExCo	
	HQ's perception of China	
2 China/Asia footprint	China capacity building in recent years (investment, R&D, production) vs. in ASEAN, JP, KR and IN	<ul style="list-style-type: none"> Frequent investment to enlarge capacity in China, e.g., In 2020, seventh premix plant launched in Hunan & increase stake in Zhongken to 100% to deepen R&D in biogel; In 2022, capacity expansion of high-performance material in Jiangyin Separate out Animal Nutrition & Health business due to downward vitamin price, closed 2 vitamin factories in China No recent major investment in other Asian countries
3 Product development	Client segment (low, mid, premium)	<ul style="list-style-type: none"> The core product is food & nutrition solutions to customers of full lifecycle, e.g., Addressing swallowing difficulties among the elderly; Premium incl. personal care products for young people, and sustainable material for biotech, pharma industry Broad geographic cover that covers underdeveloped regions, e.g., nutrition plan for poor, animal feed sold in rural areas Product innovation via industrial cooperation, e.g., R&D with home décor company to provide high-end customized coating Multiple acquisitions to expand product scope, e.g., pectin/biogel in hydrophilic colloid, polymer backplane in solar Initiate recyclable products in numerous industries to reduce carbon footprint, e.g., recyclable ocean plastic on Ford's cars, feed enzymes in farming, 100% biodegradable ingredients in fragrance, additives to reduce methane in ruminants
	Product portfolio (vertical and horizontal expansion)	
	Product pilots for decarbonization/circular economy	
4 Marketing and PGA	General marketing	<ul style="list-style-type: none"> Actively respond to China's policies and drive achievement of strategic goals, e.g., "Healthy China 2030", "Dual Circulation" Market exploration with local companies across industries, e.g., solar, agriculture, dairy, fermentation, healthcare, beauty Strategic partner with digital platforms to expand user pool, e.g., B2C platform Taobao/Tianmao, Health platform JD Health Dialogue with previous Chinese prime minister Keqiang Li in WEF 2016 and interview with CCTV News
	Strategic marketing	
	PGA	
5 Sales channels	Direct/distributors/e-commerce	<ul style="list-style-type: none"> Integrated sale network combining direct sales and distributors, establishing a network across South, North, Central China Register official stores on B2B platform Alibaba 1688, developing new clients with its mature digital commerce ecosystem Enter lower-tier market through Rural Taobao platform, distributing feeds to countries and villages of China "In China, for global", many world innovations originated from China are widely exported, e.g., Ambient yogurt attracts clients in Southeast Asia to reduce cold chain reliance, global R&D center of hydrocolloid business in China aims for globe N/A
	Exports from China	
	China desk overseas	
6 Global supply chain	Role of CN suppliers globally	<ul style="list-style-type: none"> Establish deep collaboration with Chinese suppliers, in order to create a resilient and efficient global supply chain Annual report mentions global mitigation of geopolitical risks in global supply chains through continuous monitoring, without specifically mentioning China
	Supply chain derisking	

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