

# Political Situation in China

Team Finland Meeting in Beijing

October 9, 2019



# 70 years of one-party rule

Political atmosphere in China remains tightened

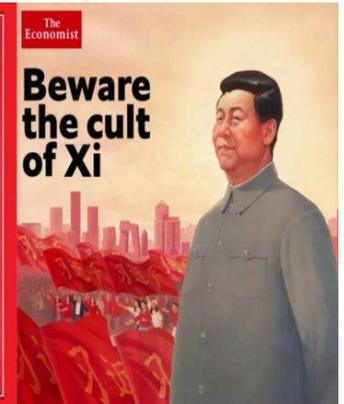
Political power is centralized under the leadership of the CCP and Xi Jinping

The party is overshadowing the state. The grip of the party and official ideology reach to all aspects of society

Space for civil society is still shrinking

Government priorities: party rule, social stability, economic growth and prosperity

**Finland and the EU encourage China to continue opening and reforms**  
**Recent development raises concerns**





# Concerns: Instability in Hong Kong

Protests in Hong Kong continue and the situation remains unclear

China is very sensitive about “interference” in Hong Kong

Upcoming elections in Taiwan in January add to political uncertainty

**Finland and the EU call for dialogue and refraining from violence.  
One Country Two Systems principle needs to be upheld**

**Companies may need risk management strategies**





# Concerns: Uyghur oppression in Xinjiang

Grave and systematic, large-scale human rights violations

1 Million Uyghurs in political re-education camps

Allegations of forced labour

Cutting-edge technologies rolled out to control population

International attention increasing, adding to tensions

**Finland, the EU and others raise serious concern**

**Companies need to address risks to reputation**



14.10.2019



# Concerns: Sensitivity and censorship

China is sensitive about its "core interests" and foreign influence in China

Censorship and self-censorship increases

Efforts to resist "Western culture" and prevent "Western ideology infiltration"

Urge to respect One-China principle, "interfering" in Hong Kong, and to avoid other controversial subjects

**Companies need risk management strategies**





# Concerns: Surveillance

China is building a mass surveillance society. How will the society react?

A pervasive system of algorithmic surveillance being set up with the help of high technology and law revisions

Both online and off-line: video cameras, embedded with facial recognition and AI

Cyberspace controls and surveillance, including VPN restrictions, real-name registration

## Companies and their employees may face privacy issues





# Concerns: Social Credit System

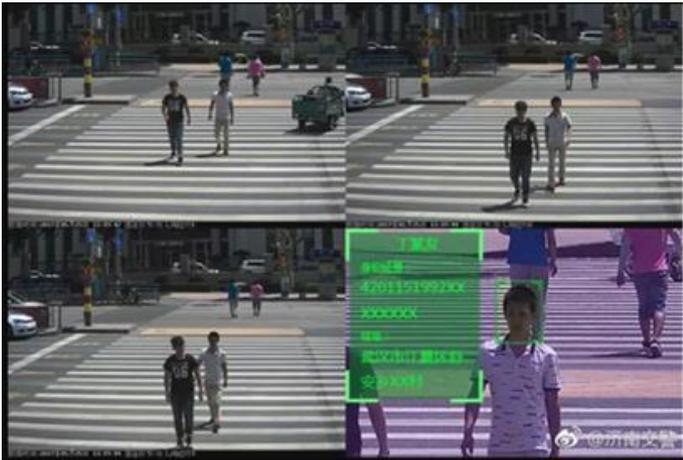
Nation-wide Social Credit System to be implemented in 2020; pilots ongoing

A series of big data and AI-enabled processes that effectively grant subjects a social credit score based on their social, political and economic behavior

“Citizen score” varies according to your behavior: Good score leads to privileges, bad score to loss of rights

”Second-class” citizens and businesses?

**Effects to companies and their business networks are unknown**





# China's Global Activity Increasing Amid Tensions

China's worldwide influence continues to grow. The Belt and Road Initiative is the government flagship

Chinese development model and rebalancing of global order

"The great fracture?": tensions among great powers are growing – what consequences to the global economy and the international trade system?

**Finland welcomes China's active role in fight against climate change, and efforts to increase connectivity. We highlight international law and defend the rules-based multilateral system**



# EU and China



In March 2019, EU Commission defined China as

- Cooperation and negotiating partner
- Economic competitor in pursuit of technological leadership
- Systemic rival promoting alternative modes of governance

2020 Strategic agenda for cooperation – updates to 2025

Hard work on Comprehensive Agreement on Investment

EU - China Summit and EU27 - China Summit

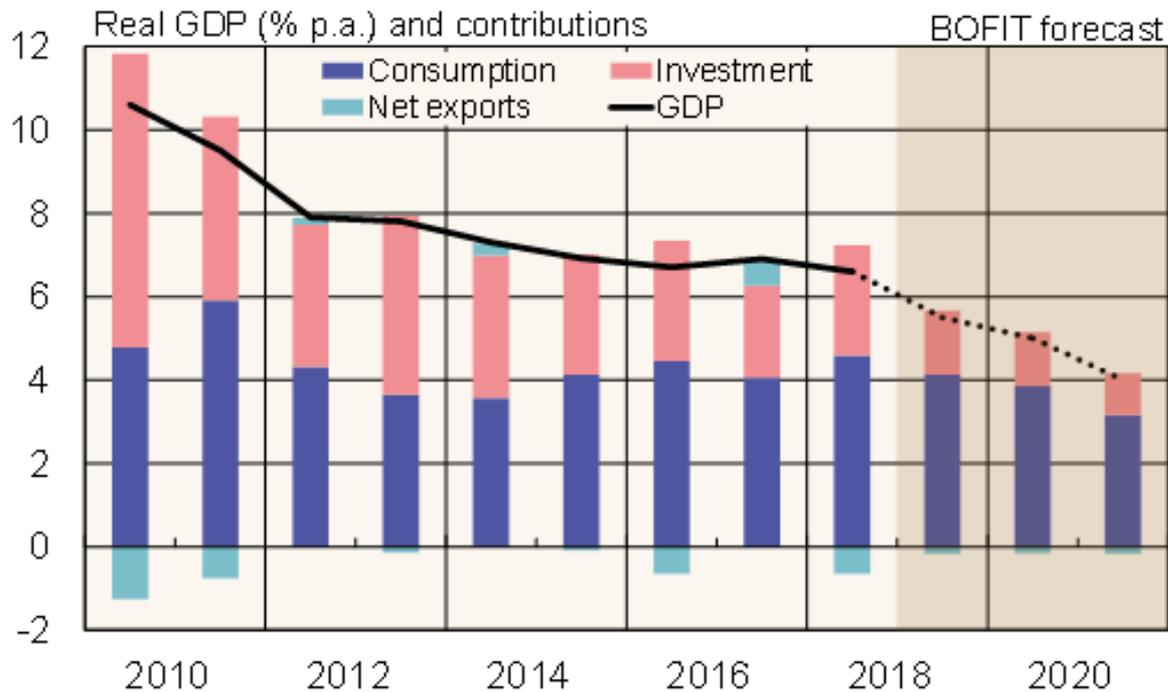
**Guess where Finland stands?!**



# Chinese economy: internal and external pressures



Structure of Chinese GDP growth, realised and forecast



Sources: China National Bureau of Statistics and BOFIT.



# US China trade and tech war: no end in sight

- Limited tariff deal could be possible but will not solve the underlying issues
- Tensions will continue, fundamental difference in economic models
- Made in China 2025 disappeared from official rhetoric, but its aims remain unchanged

- **According to**

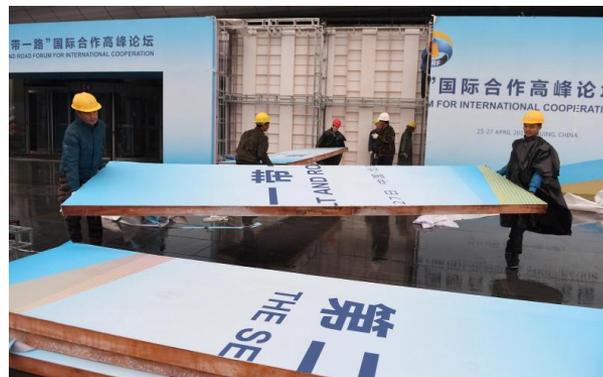
**Finnish companies in China, still mostly no direct effects, but long-term concerns**





# BRI: slowing momentum?

- Awareness of risks higher, “debt diplomacy”
- China trying to address criticism
- For Finnish companies, still possible commercial opportunities in 3<sup>rd</sup> countries
- **EU: sustainable connectivity**



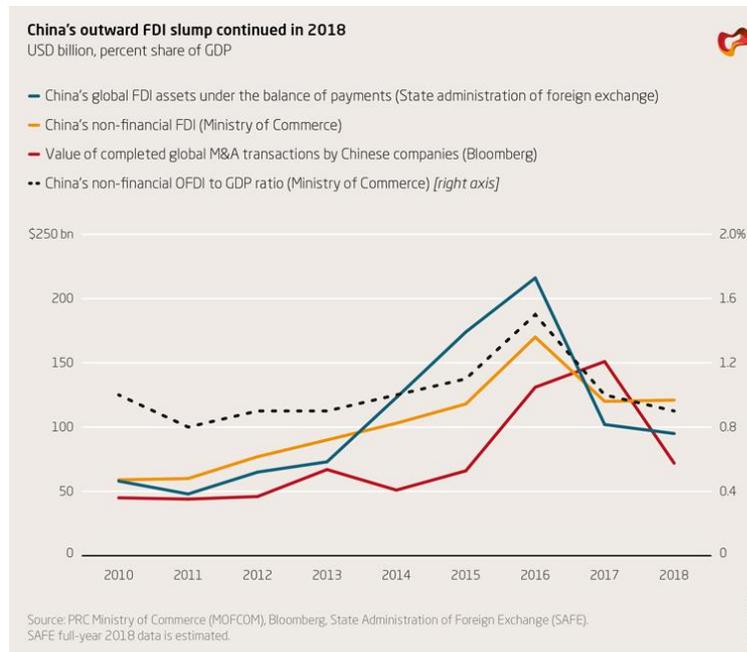


# China's FDI: decreasing trend continues

- China's Foreign Direct Investments still decreasing in 2019
- China's capital controls remain
- Growing regulatory scrutiny in host economies, especially in the US and Europe.
- Finland has national screening mechanism and implements the

EU foreign investment screening framework

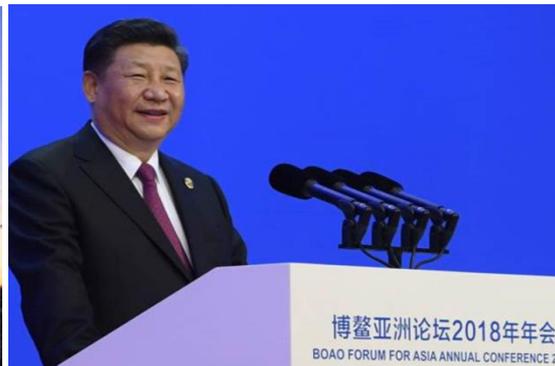
- **Still, EU has one of the world's most open investment regimes**





# China's opening up: rhetoric vs. reality

- Some improvements: IPR, opening up in financial sector
- New foreign investment law in force 1.1.2020, negative list updates
- Upcoming social credit system for companies
- EU Chamber of Commerce: need to reform SOEs, “competitive neutrality” for China’s own sake
- Other issues to look at: cybersecurity law, party cells in private companies, export control regime





# Takeaways for companies

China is an important partner and major market for Finland and the EU - opportunities abound

The market has also problematic aspects, and China is increasingly a competitor - no time for naivety

Next year we celebrate 70 years of diplomatic relations between Finland and the PRC

**Look after your rights and market access and call for a level playing field**  
**Take care of risk management strategies**

