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Doing Business in China's New Era:
Industry Implications of China's 19th National
Congress of the Communist Party of China



FOREWORD

by James McGregor, Chairman, APCO Worldwide in Greater China

The Dawn of a “New Era”

When Xi Jinping first became the leader of the Party, president of the country, and head of the Chinese military five years ago, he characterized China’s relationship with the world as the country’s “catch up and overtake phase.” At the 19th National Congress of the Communist Party of China (NCCPC—the Congress) in late October of 2017, Xi made it clear that he believes that China has now reached the “overtake phase.”

In his three-and-a-half-hour political report to the Party’s 2,300 top officials, Xi laid out a vision for China to lead the world in everything from science and technology, to modern weaponry and military might, to providing a model of economic development and governance for other countries to follow.

Xi also indicated that he plans to personally lead this effort for many years, perhaps much longer than the traditional 10-year term allocated to a leader since Deng Xiaoping. The most enduring hallmark of the 19th Congress is the addition of this sentence to the Party constitution: “Xi Jinping thought on socialism with Chinese characteristics for a new era.”

This puts Xi on equal footing with Party founder Mao Zedong and allows him to take the Party in new directions in this “new era” that is unshackled from any mistakes and limitations of the past.

Ambitious Agenda That Spans the Next Few Decades

The agenda laid out at the Party Congress is extremely ambitious and it carries many uncertainties despite the resolute certainty on display at the Congress.

Xi has promised to raise incomes, win the battle against poverty, clean up the environment, clean up the food supply, clean up corruption and improve government inefficiency while promoting “the creative evolution of traditional Chinese culture.” He has pledged to build a “beautiful China” with quality schools, world-class universities, modern hospitals and high-quality health care. He said he will “foster a political ecosystem featuring honesty and integrity” while creating a society that is “full of vitality, harmonious and orderly.”

This all tops off with the “two centenary anniversaries” of the 100th anniversary of the Party in 2021 when China will be “moderately prosperous,” and the 100th anniversary of the People’s Republic in 2049 when China will have “common prosperity for everyone” and will be a “global leader in terms of national strength and international influence.”

Xi in his work report did not specify economic growth targets, which could be viewed as an acknowledgment that his earlier promise to double the 2010 per-capita income level by 2020 has resulted in increasingly dangerous levels of debt pumped

into China’s highly leveraged economy. The big question that remains is what Xi plans to do with the Party’s market-oriented economic reform agenda that has been mostly stillborn since it was laid out in the Party’s third plenum in 2013.

While the Party Congress rhetoric once again declared that “the market will have a decisive role,” making state-owned enterprise “stronger, bigger and better” appears to be Xi’s top priority. In the past couple of years, Xi has been pushing Party cells into foreign and private enterprises as well as strengthening Party decision making power in state-enterprises. For example, the largest state-owned enterprises listed on the Hong Kong market changed their articles of association in the past year to indicate that the Party, not the state, is to play the key role in company management.

The emphasis in Xi’s work report, as well as the language, added to the Party constitution make it clear that China is focused on technological dominance that will enable Chinese companies to lead the world in all the important technologies of the future. Xi’s signature policy of “Made in China 2025” was highlighted at the Congress as providing the blueprint for this buildup of China’s national strength and industrial prowess.

The Message

The overarching message and the prevailing attitude at the Party Congress is that China is a country that is confident about where it sits in the world and where it is headed. As this “new era” unfolds, government and enterprises around the world must keep a close watch on the opportunities and obstacles that will emerge. The Party mouthpiece Xinhua News Service summed up the Party’s view of China’s current situation by saying that “China has stood up, grown rich and become strong” and that “it is time to understand China’s path because it appears that it will continue to triumph.”

ABOUT THE AUTHOR



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OVERVIEW

The Communist Party of China (CPC) convened its twice-a-decade National Congress of the Communist Party of China (NCCPC – the “Congress”) in Beijing from October 18-25, 2017. These Congress sessions assemble Party delegates to discuss and endorse the Party’s strategic goals for the next five years, review and amend the Party constitution, and select and appoint members to China’s key legislative bodies. Primarily a leadership re-shuffling event, the Congress and its outcomes nevertheless provide indicators on future policy priorities of the CPC leadership.

While the policy landscape facing multinational companies (MNC) in China is not likely to change in the near term, reform objectives outlined in Party General Secretary Xi Jinping’s work report and the NPC’s amendments to the CPC Constitution will ultimately determine the way MNCs operate in China in the years to come. Foreign firms need to take note of these objectives and calibrate their China strategies accordingly.



KEY TAKEAWAYS

This year’s 19th NCCPC was particularly significant due to its timing within Xi’s tenure and wider reform and development agenda. In Xi’s second five-year term, the CPC must develop China into a “moderately prosperous society” and double real GDP from 2010 levels by 2020, as mandated in the 13th Five Year Plan. Realizing this goal will be critical as the Party prepares to celebrate its 100-year anniversary in 2021, and regulatory changes that arise over the next five years should be interpreted as synergizing with this ambitious agenda.

It is against this urgent backdrop that several headline outcomes from the 19th NPC warrant attention:

1 CPC General Secretary Xi Jinping has consolidated unrivaled power

In an unprecedented move just five years into his term, Xi had his own theoretical contribution of “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era” enshrined in the CPC Constitution. Unanimously agreed by all Congress delegates, no sitting Chinese leader has been afforded this distinction since Mao Zedong. This will give Xi greater credibility within the Central Committee, seals his legacy into Party canon, and affirms his sweeping consolidation of power and prestige within the Party apparatus.

2 China’s “principal contradiction” has changed, in turn reshaping Beijing’s conceptions of economic growth

Since the 11th Congress in 1981, where China’s reform and opening resulted in breakaway growth in which export-led investment in manufacturing was ideologically prudent and economically beneficial, China’s conception for development has now shifted to one focused on balanced development and improving quality of life. In ideological terms, the “principal contradiction” has changed as the country has reached a new stage of development. As Mao Zedong made China stand up and Deng Xiaoping made China rich, Xi’s “new era” now seeks to create a stronger, more “beautiful China” where growth is more sustainable. Tellingly, Xi Jinping’s work report made no mention of prescriptive GDP targets, a break from convention in previous major Party gatherings.

3 Signature Xi Jinping policy priorities are now written into the CPC Constitution

Several of Xi’s signature policy initiatives received special mentions during the 19th NPC. In addition to fulfilling the three “historic tasks” of advancing modernization, national reunification, and safeguarding world peace and common development, the Party must now also “realize the Chinese Dream of national rejuvenation.” The revised CPC Constitution adds that the Party must pursue construction of the Belt & Road Initiative as well as advance supply-side structural reform.

Read together, these developments underscore a growing awareness in the Party that China’s development strategy must evolve to meet the country’s ambitious goals, which in turn will invite increased state supervision over all sectors of the Chinese economy.

CHINA'S NEW VISION OF DEVELOPMENT

One of the most striking takeaways from the National Party Congress in terms of overall policy direction was the official announcement that China would be adopting a new development model going forward.

While development remains the Party's "top priority in governance" and the "key to solving all of China's problems," Xi Jinping explained in his speech that China's growth model must be transformed. His "new vision of development" is one that prioritizes sustained and sound economic growth, that ultimately modernizes the economy and utilizes new drivers to strengthen China's global competitiveness. It is a vision that prioritizes quality and performance, over quantity and speed, and stresses supply-side structural reform—efforts all aimed at removing over-capacity.

China is determined to build an industrial system that harmonizes a coordinated development of the real economy with new industrialization, technological innovation, urbanization and modern finance. This new vision is key to understanding the future developments and government priorities in all industry sectors and will determine the opportunities for businesses to contribute to these new development goals.

NEW BEST PRACTICES

Shifting of Goals

The "new era" as proclaimed by Xi will comprehensively change the public affairs landscape in China. The shift towards ideologically driven key performance targets (KPIs) for national and local government stakeholders, as well as the new focus on quality rather than quantity, will pose new challenges for public affairs professionals across all sectors.

With the tightening of ideological control in all Chinese government departments and businesses, engagement efforts will likely change in character. Departments will be under immense pressure to meet new targets, with little room for negotiation or dialogue. This will be a particularly difficult issue when a foreign business runs into difficulties as local governments will appear to be increasingly opaque and non-communicative as the motivation will be more political than commercial.

Quality of life, which has translated into performance-linked KPIs rather than pure GDP targets of previous years, will dominate all government stakeholder considerations. With pollution and health care becoming key targets under Xi, this will have a particularly striking impact on foreign businesses in the manufacturing, health care, and food retail sectors.

Conditional Devolution of Responsibilities

The 19th NCCPC has shown that Xi Jinping's solution to sluggish reforms and a faltering economy is more ideological control as Chinese development takes on even more characteristics of authoritarian capitalism. Interestingly, the government has also devolved more powers to associations and social organizations albeit with party oversight as a prerequisite.

The call for shared governance echoes this trend whereby the bureaucracy relinquishes some of its responsibilities and, arguably, some of its accountabilities also, in return for a wider policy-formulation process where more non-governmental entities may play a part.

This opens opportunities to engage with more non-governmental or semi-governmental stakeholders, and exert more influence due to their new responsibilities in a shared governance structure. However, it is equally likely that these organizations might display more caution than previously due to more strict party oversight.



NEW SOLUTIONS FOR A NEW ERA

As China goes towards its 2020 goal for a "Xiao Kang," or "moderately prosperous," society, immense pressures will be exerted on foreign businesses. To prepare for these issues and to survive in China, businesses must consider a suite of measures:

- **Effective risk monitoring and assessment** framework to conduct horizon scanning and flag up events that might be an indicator of looming crises, and mitigate these risks through integrated government relations and communications efforts
- **Adopt a proactive yet discreet engagement strategy** with local and national government departments that goes beyond mere operational considerations. Keep communication channels open even when there are no immediate issues
- **Prepare effective crisis communications** options for unforeseen events such as sudden crackdowns. Be prepared to leverage all established networks at short notice and maintain an active, multi-channeled communications suite for rapid dissemination of information
- **Conduct contingency planning** to mitigate business continuity risks that might involve shifting of production, dispersal of inventories, and moving of personnel at short notice
- **Establish engagement platforms/programs** that align with shared governance, and build relationships with social organizations that have been mandated with clear societal targets such as in health care or social care

While having long-standing engagements with the government has been a plus rather than a must-have in previous decades, this is now an essential criterion for long-term operational stability.

MADE IN CHINA 2025: TEN STRATEGIC SECTORS

1. Information technology
2. Numerical control tools and robotics
3. Aerospace equipment
4. Ocean engineering equipment and high-tech ships
5. Railway equipment
6. Energy saving and new energy vehicles
7. Power equipment
8. New materials
9. Medicine and medical devices
10. Agricultural machinery



IMPLICATIONS FOR THE BUSINESS COMMUNITY

Information and Communication Technology Making China a Country of Innovators

China wants to lead and innovate in the industries of tomorrow. Companies in targeted technology sectors should expect stronger state support for domestic competitors and intensified scrutiny from the central government.

The 19th National Party Congress saw the Chinese government reaffirm its special focus on advancing the technology sector. “Innovation” was one of the key terms that pervaded Xi Jinping’s speech — it was described as the primary driver of China’s future development and the strategic foundation for a modernized economy.

According to Xi, China’s new sustainable development model relies on the “further integration of internet, big data, and artificial intelligence with the real economy” and includes the creation of a “digital China and a smart society.” In addition, China’s technological ambitions were officially added to the Party Constitution with an amendment that declared China must become a “world-class science and technology country.”

Xi’s focus on technological innovation at this year’s Congress comes as no surprise. China’s ambitions to become a leader in science and technology have long been apparent and have continuously intensified since the launch of Beijing’s “Made in China 2025” plan in 2015. This initiative calls for an increase in the use of domestic technology materials and components in priority sectors. It also commits China to investing billions to turn China into a self-sufficient and world-leading technology hub. China is also focused on becoming a world-leader in artificial intelligence by 2030, as declared in the “Next Generation Artificial Intelligence Development Plan” published in July 2017.

The Party Congress showed that the government will continue to put substantial weight and money behind its “strategic” domestic technology sectors, ranging from advanced information technology, robotics and aviation to new energy vehicles. China is determined to take the lead globally in cutting-edge science and technology innovation. Meanwhile, data localization laws under the umbrella of the Cybersecurity Law and forced technology transfers will continue to limit foreign companies’ ability to freely innovate in the Chinese market.

Foreign MNCs working in these sectors should therefore anticipate more techno-nationalist policies that strongly favor domestic competitors and disadvantage foreign players. Opportunities in joint ventures or R&D collaboration may exist, but these might require foreign IT firms to localize their

data management practices, inviting security concerns. The competition will significantly increase and even well-established MNCs should prepare for their competitors to eat away at market share. While China is well on its way to leading the world in some technology fields, it will still need significant foreign support in others before it can catch up with its foreign counterparts. Foreign businesses may therefore still be able to capitalize on China’s thirst for innovation.



The Environment

Building a “Beautiful China”

China views its environment as an asset worth protecting. Companies that can contribute to building a low-carbon, green and sustainable China are set to benefit.

The concept of “Beautiful China” was unveiled for the first time in Xi Jinping’s work report to the Congress. Xi’s plan for building a modern socialist country by the mid-21st century involves developing an “Ecological Civilization” and a “Beautiful China” where man and nature live in harmony. The speech put forward this 2035 goal as a safeguard against environmental degradation during economic development.

Recent policies have already conferred more authority to the Ministry of Environmental Protection (MEP), which has begun stringent environmental inspections on manufacturing plants that may lead to their relocation away from urban and residential

areas. Meanwhile, standards will continue to evolve to promote cleaner manufacturing activities.

The development of clean energy, environmental protection and green finance industries will underpin Xi's drive for sustainable development. Companies that offer low-carbon technologies and solutions for pollution control, as well as waste disposal, will be in a strong position to tailor their business solutions to these priorities.

At the same time, disruptions to existing manufacturing plants will be increasingly frequent due to the heightened pressure on local MEP departments. This could potentially lead to business continuity risks for large manufacturers as well as non-responsive local government departments, seeking to meet their new environment-linked objectives.

With Xi having vowed to take tough steps against any activities that damage the environment, government agencies will be under pressure to deliver on sustainability goals at the expense of GDP targets. This shift from investment to consumption, from easily quantifiable KPIs to objectives driven more by political considerations and a fear of inspections combine to form an unpredictable operating environment for foreign manufacturing businesses.

Companies seeking to adjust the location of their China-based assets should also pay attention to the macro effects of Xi's guidance. No longer will problems be solved through relocation, as environmental targets become more widespread at the city cluster or even provincial levels. This increase in regulatory hurdles will complicate engagement opportunities for companies, and increase pressures to divest or fundamentally shifting operating models to one that is compliant with China's national goals.

Education

A Path to National Rejuvenation

China wants to become a world leader in education. The sector is an important platform for China to spread its language, values and culture abroad, as well as develop a skilled workforce for new industries domestically. Foreign education providers in China should be prepared to comply with tighter ideological regulations.



In his work report to the 19th NCCPC, Xi Jinping highlighted education as a primary way to improve people's livelihoods. Not only does Xi seek to build China into a world leader in terms of education, he also believes that it is fundamental for the rejuvenation of the Chinese nation.

The key focus areas for development include:

- Compulsory education in rural areas
- Pre-school education
- Online education
- Vocational education and training system reforms
- Establishment of Double World-Class universities

It is clear from Xi's speech that education will continue to be a priority for China over the coming decades, a central part of which will be the continued promotion of domestic Chinese language programs, as well as the reinforcement of socialist values and Chinese culture in teaching curriculums. With a general trend toward ideological tightening, companies should be prepared to ensure "ideological compliance."

Internationalization has become a key criterion for the "Double World Class" initiative, as China seeks to expand its influence in education by seeking wider acceptance for its domestic standards. This initiative will likely see Chinese universities try to attract more international students by establishing English-taught courses, and attempt to close the gap in higher education between China and the west.

As Chinese universities are incentivized to seek best practices and expertise from their global peers, opportunities will arise for foreign education companies at all levels. Those specialized in pre-school, vocational and online education are likely to see the most demand. Ideological pressures will nevertheless threaten to hamper the development of a truly internationalized educational system, with full access to global academic research. Companies specializing in educational databases or publications will likely fall under the scrutiny of the government's security organs.

Non-Governmental Organizations

Sharing Responsibility for Inclusive Development

China will continue its stringent management of both domestic and foreign NGOs. China's aim to reduce domestic inequality and to expand global influence gives NGOs the opportunity to demonstrate their contribution to government priorities.

The updated "principal contradiction" as defined by Xi Jinping during the Congress recognized development inequality as one of the major challenges facing the party in the "new era" of China's development. Specific inclusive development goals mentioned in Xi's speech ranged from income equality, access to housing, to rural revitalization. These aims to address the social and regional inequalities have arisen during China's rapid economic development and urbanization.

China's inclusive development goals are coupled with calls for shared governance in which non-governmental social organizations are encouraged to play a more active role. Xi's speech also aims to expand China's global influence through the "Belt and Road Initiative," participate in global governance institutions such as the United Nations, and increase its international aid to other developing countries.

Over the course of 2017, China has increased regulatory oversight over both domestic and foreign non-governmental organizations through the implementation of the Charity Law and Foreign NGO Management Law. At the local level, the



establishment of internal Party organizations for domestic organizations were called for.

Foreign NGOs, now under the direct management of the Ministry of Public Security, will now also face challenges in finding appropriate government sponsors as part of the registration requirements under the new NGO law. The strong emphasis by the government on being able to track and record all activities conducted by foreign organizations in China will place additional pressures on their operations.

Xi's concentration of power during the Congress means that the Party will continue to strengthen their influence within civil society groups and philanthropic organizations, as it is in lockstep with increased Party oversight and management of social governance during Xi's tenure. However, the government will likely continue to engage non-government entities to share responsibilities in the provision of public services, due to large gaps that exist in these areas.

Despite the ideological tightening, the Party's new emphasis on inclusive development will still offer NGOs an opportunity to align their missions with government priorities and to demonstrate their expertise in providing innovative and professional solutions that address inequality. Foreign NGOs with international operations can contribute to the process by sharing their best practices and expertise with Chinese philanthropic organizations in developing strategies, fundraising, project management, and even overseas expansion.

Health Care Building a "Healthy China"

China aspires to improve the wellbeing of its 1.3 billion people. Companies in relevant sectors should anticipate steady opening as the government continues to refine its health care system and seeks out foreign involvement, although cost pressures will likely be a focus going forward.

In his Congress Work Report, Xi emphasized the need to "improve people's wellbeing" and stressed "leading the people to a better life" as the Party's abiding goal. The Party will achieve this through reforms in the health care system including pharmaceuticals, hospitals, and other health-related industries. Xi also referred to the "Healthy China 2030" initiative, which was announced in October 2016 as the first national-level medium to long-term strategic plan for national health and wellbeing since the founding of the People's Republic of China in 1949.

The China Food and Drug Administration (CFDA) has already proposed changes to current clinical trial requirements which required foreign drug manufacturers to conduct local tests before receiving marketing approval. This had previously slowed down market entry efforts for drugs already approved overseas and hindered Chinese patient access to the latest pharmaceutical therapies.

In October 2017, the State Council released its "Opinions on Deepening Reform of Review and Evaluation Mechanisms to Further Encourage Drug and Medical Device Innovation," which will further accelerate approvals for foreign drugs and medical devices and ease bottlenecks faced by new treatments in China. Such regulations also grant innovative medical devices and other medical devices that serve urgent clinical needs a faster review and approval process and are part of the government's nationwide drive for innovation in the health care space.

The increasing demand generated by this drive to offer basic health care services for all by 2020 offers foreign companies both opportunities as well as pressures. Recent policy measures that aim to reduce the price of medical consumables in exchange for market access, for example, have raised alarm among foreign companies.

At the same time, the government's explicit support for domestic medical device players has become further entrenched in the past few years with preferential procurement for Chinese companies. Multiple government departments are further supporting R&D programs for domestic innovation, such as in biotechnology. China's Cybersecurity Law and cross-border data flow regulations are also encroaching on the ability of health care companies to operate freely in the Chinese market, having identified patient and genomics data as a national security interest.

Going forward, companies in the pharmaceutical and medical devices industries should nevertheless anticipate a steadily more favorable business environment. Foreign firms should align their engagement activities with the government with the "Healthy China 2030" objective to protect themselves against regulatory pressures. They should also identify domestic partnerships due to Xi's call for "distinctively Chinese systems for providing basic healthcare." Monitoring overarching government initiatives and policies such as the "Made in China 2025" plan and the Cybersecurity Law will remain vital to navigating a changing healthcare environment and anticipating potential business threats.





Food and Beverage "Eat Safe, Eat Well"

Food safety, nutrition and health are going to fall under the overall development umbrella of "Healthy China 2030." While this will mean tighter regulation for foreign food exporters, it will also offer new opportunities for food testing technology companies.

The work report included food safety under the overall umbrella of "Healthy China 2030." This includes improvements in medical care, disease prevention, as well as food safety. In a sense this is the government "downgrading" food safety as an independent issue, having made considerable improvements since 2008. Going forward food safety is likely to be integrated into a holistic approach that will also include nutrition and healthy living.

Since the passing of the updated Food Safety Law in late 2015, China has been consolidating its outdated and overly complex regulatory framework. While previously responsibility for food safety has fallen to a variety of agencies at both the national and local levels, this has been drastically simplified in recent years.

Key food safety initiatives such as traceability and pesticide management have been allocated to MOFCOM and MOA respectively. While other issues such as e-commerce and online food ordering services are also becoming clearly regulated. The CFDA is gradually becoming sidelined as its responsibilities are largely reduced to inspections.

These regulations will have a direct impact on foreign retailers operating in China, especially in terms of inspections of agricultural produce. The fragmented supply chain in China means it will be difficult for retailers to ensure 100% compliance with the newly upgraded regulations for all sorts of products.

Of note, retailers importing products into China via e-commerce will continue to be closely monitored. Additional compliance will be needed for regulations such as labeling and import duties, in addition to those stipulated in the Food Safety Law.

The "Healthy China 2030" objective also offers opportunities for foreign retailers in areas such as consumer education, for example. Promoting messaging on healthy living, eating, and the importance of nutrition will be a key focus for local governments. Technology companies specializing in data analytics, risk assessment, and other solutions with food safety applications will also be in demand in the next few years.

Finance

Reduce Risks at all Cost

The government will continue to curb financial risk at home with tighter regulations, at the same time opening its financial sector to foreign investors.

The healthy development of the financial sector was mentioned in some detail during Xi's work report speech. It highlighted the need for a multi-tiered capital market, a twin-pillar regulatory framework of "monetary policy + macroprudential regulation," the deepening of interest rate and exchange rate marketization reform, and the establishment of a financial regulatory system to safeguard against systemic financial risk.

After Xi's speech, governor Zhou Xiaochuan of the People's Bank of China (PBOC) also released a long article titled "The Bottom Line for Safeguarding against Financial Risks," in which he listed out key issues facing China's financial sector and suggested policy recommendations:

- Consider high leverage and liquidity risk, including debt-holding "zombie enterprises," illegal debt-raising of local governments, and the aggressive money-lending behavior of private financial firms.
- Review cross-sectoral risks, including wealth management products, insider trading, online Ponzi schemes, and corrupt officials.
- Open the financial sector to promote good corporate governance of domestic financial firms.
- Refine the twin-pillar (monetary policy and macroprudential regulation) regulatory framework.

With the curbing of financial risk having been raised to become an "eternal theme," the newly launched Financial Stability and Development Committee (FDSC), headed by Ma Kai, will take on the role of policy formulation for exactly this purpose. Aside from managing systemic financial risks, it will also deliver Xi's twin-pillar regulatory framework and act as a macro supervision body for monitoring financial activities.

On November 10, 2017, the PBOC announced that it would be easing market access restrictions on foreign financial firms. Although a clear timeline/roadmap for financial opening has yet to come, the move is indicative of the government's wish to curb financial risks by promoting a more transparent market. Such a market will likely enable a more efficient allocation of capital, and allow the government to target SOE inefficiency and unaccountable debt that are the main causes of an underperforming financial sector.

Foreign businesses specializing in financial risk management services will likely benefit from these intensive government efforts at risk mitigation. Indeed, many local governments are actively providing incentives for financial talent to settle in their locales. Foreign financial companies will also have more opportunities in future, as state entities will likely be seeking more experienced partners for guidance.





Geopolitical Risks

External Factors from a Resurgent China

China will continue with its assertive foreign policy and military build-up. Frictions in regional hotspots such as the South China Sea may result in retaliatory actions against foreign businesses.

Xi Jinping paid much attention to the development of the People's Liberation Army (PLA) during his work report, linking the "China Dream" directly with a "Strong Military Dream." This aligns with Xi's policies concerning both military reforms at home and assertive foreign policies abroad. The gradual integration of civilian and military industries has also strengthened the domestic military-industrial complex, ensuring additional support for the PLA during times of war, but also muddying the line dividing the military and civilian industries.

As with all other areas, ideological discipline lies at the core of Xi's vision for the Chinese military. This belief in the inevitability of China's rise and the essential role of the military, will likely lead to confrontations with existing powers in the Asia-Pacific and, increasingly, also further afield.

As the deployment of the THAAD system in South Korea demonstrated in 2017, China is willing to retaliate against foreign businesses for the perceived wrongs of their governments. The forced closure of Lotte supermarkets during the crisis was highly indicative of this policy, as was the 60-70% drop in sales of Hyundai automobiles just in one quarter.

Key flashpoints such as the South China Sea and the East China Sea are unlikely to deescalate, given Xi has expanded China's military presence there during his first term. The increased tempo of operations by both the Chinese and US navies in the region makes confrontations more likely, but escalations less so as the two powers gradually work out a modus operandi, as Moscow had done with Washington during the last century.

Despite the significant focus on the military during the NCCPC, Xi's primary tool for securing the "China Dream" will continue to be diplomacy. As President Trump's visit in November demonstrated, China has many methods for placating an opponent, no matter how previously bellicose the latter had been.

North Korea remains the wildcard in this equation, with President Trump's rhetoric making it difficult for China to stabilize a situation that is uncomfortably close to its borders. Although Sino-US relations can be managed, future escalations between the US and North Korea will continue to be an area where China will feel obliged to retaliate against foreign businesses.

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APCO CHINA

APCO Worldwide is a global communication consultancy. We help the most innovative organizations adapt and thrive in this fast-moving, interconnected and complex world. APCO has been serving clients' interests in Greater China since 1989. Today, our Greater China team includes more than 50 professionals from a diverse range of backgrounds, including business, government, journalism, academia and civil society. We are based in well-established offices in Beijing, Shanghai, and Hong Kong.

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