



# 2016 GLOBAL TRENDS: CHINA'S GROWING CHALLENGES AT HOME

JANUARY 2016

*For interviews with ASG China experts please contact Julie Mason at [jmason@albrightstonebridge.com](mailto:jmason@albrightstonebridge.com).*

In 2016, China's slow and uneven pursuit of reform and opening and increasingly assertive foreign policy – trends strongly evident in 2015 – are likely to continue. Though business opportunities in the Chinese market remain substantial, even as growth slows to 6.5%, foreign companies will be under increasing pressure to select the right strategies to navigate a highly complex operating environment.

The following 6 factors will impact foreign investors' involvement in China in 2016:

## 1) MANAGING THE ECONOMY IS LEADERSHIP'S TOP PRIORITY

Concerns about managing China's slowing economy – and ultimately, maintaining social and political stability – will dominate the leadership agenda for 2016. China has set a growth target of 6.5% for the period 2016 to 2020, and its new Thirteenth Five-Year Plan (to be finalized in March) reflects China's transition to a "new normal" stage of economic development based on domestic consumption, the services sector, innovation, and higher value-added manufacturing. Though China's stock markets bear little relation to the real economy, Beijing's ineffective policy response to recent market volatility has undermined confidence in the government's commitment to pursuing market-based reforms and the ability of its regulators to manage China's increasingly open financial system.

## 2) CONTRADICTIONARY ECONOMIC POLICIES WILL CONTINUE

China's efforts to simultaneously manage its economic transition and maintain social stability mean it will continue to pursue contradictory economic policies in 2016. While the leadership has emphasized reducing the government's role in the economy and expanding market forces, vested interests and other political and economic goals are driving enhanced government intervention in some economic and commercial matters. The government will continue to promote policies meant to benefit domestic companies and increase scrutiny of foreign investors. Problematic new regulations calling on firms to follow unique Chinese standards for data security and indigenous technology IP are particularly worrying.

## 3) PRESIDENT XI TIGHTENS CONTROLS AT HOME

Amidst this transition, the Chinese government has staked out an increasingly assertive position at home. President Xi's unusual insistence on taking a personal role in leading economic policymaking leaves him

## ABOUT ASG

As the premier global strategic advisory firm, Albright Stonebridge Group (ASG) helps our clients succeed in international markets. We assess and manage risks, identify and seize opportunities, and solve political and regulatory challenges. ASG's worldwide team of commercial diplomats has served clients in more than 100 countries and across all major industries.

[ALBRIGHTSTONEBRIDGE.COM](http://ALBRIGHTSTONEBRIDGE.COM)

open to blame when things go wrong, and slowing economic growth, rising unemployment, and increased citizen dissatisfaction with pollution and corruption fuel leadership insecurity. That may help explain the government's increased policing of the financial sector, the vigor of Xi's anti-corruption campaign, and a broad crackdown on so-called "Western" ideas, NGOs, media, and political dissent.

#### 4) INCREASED ACTIVISM ABROAD

China's increased activism in regional and global economic and geopolitical matters will continue to be a mixed bag in 2016. Xi's new economic Silk Road, the Asian Infrastructure Investment Bank, the BRICS bank, China-led regional trade initiatives, and policies to promote the internationalization of the yuan highlight China's enhanced efforts to promote its economic leadership. Many of these efforts seek to facilitate closer regional trade and transportation links with China as the hub, as well as absorb China's excess capacity in its industrial sector and support the "going out" of Chinese companies.

#### 5) MIXED OUTLOOK FOR GEOPOLITICAL ENGAGEMENT

On geopolitical matters, China will continue to assert its claims in the South and East China Seas, but primarily in ways that seek to avoid military confrontation with the U.S. or regional claimants. More positively, China's efforts were key to the Paris climate agreement, and it is engaging more deeply—often in coordination with the U.S.—on stabilization efforts in Afghanistan and Africa. China has a strong interest in a stable international order, particularly in a year when it will host 19 world leaders in Beijing for the G20 Summit, but its impact on global and regional affairs remains far from certain.

#### 6) TENSIONS PERSIST IN THE U.S. – CHINA RELATIONSHIP

China's increased assertiveness will continue to create tensions in the U.S.-China relationship at a time when President Obama, already a lame duck, has less leverage on critical issues. The two countries will utilize a range of new or existing bilateral mechanisms to manage difficult issues, such as cybersecurity, in a more challenging environment in the coming year. Although the U.S.-China Bilateral Investment Treaty remains a priority and positive area of cooperation, it will not be finalized in 2016.

