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PRESS RELEASE

“Two Sessions”: China’s economic recovery underway, but concerns remain

- ***The rebound in consumption, China’s economic efforts to bounce back, and the strong focus on quality development are expected to provide interesting and increasing business opportunities for Swiss companies in China.***

- ***Encouraging signs: The service industry Purchasing Manager Index reached 55, the highest since July 2022. The Caixin manufacturing PMI index reached 51.6, the highest since August 2022.***

- ***Major challenges for the Chinese economy remain: Slow exports, low private sector investments, the semiconductor shortage, and the risk of falling behind in the Artificial Intelligence field.***

Shanghai (March 14, 2023) – On March 13, the so called “Two Sessions” in Beijing – the twice a decade meeting of China’s legislature, the National People’s Congress (NPC), and the top political advisory body, the Chinese People’s Political Consultative Conference (CPPCC), came to a close. “We followed the events closely, because the two sessions give clear indications of the leadership priorities both in terms of the policies and objectives described and of the new leaders appointed for five years in charge to implement the country’s direction,” explains Nicolas Musy, Delegate of the Board of the Swiss Centers Group, a non-profit organization that lowers the Asian market entry hurdles for Swiss enterprises. One of the major announcements during this year’s meetings was the target of ‘around 5%’ real GDP growth for 2023 and the creation of 12 million jobs. Mr. Musy: “Given the bad international economic environment, this indicates that the focus in 2023 is clearly on the economy despite the harsh geopolitical rhetoric. And when we look at recent economic data, we see that China’s recovery is under way and there is some reason for optimism.”

One of the positive developments: In post-zero-covid China, consumption is restarting. “Full malls, flights, hotels and restaurants show that very clearly,” states Musy. Statistically more relevant is the service industry Purchasing Manager Index (PMI from Caixin/S&P Global) reaching 55, the highest since July 2022 when the economy recovered from the Shanghai lockdown. “In February, the Caixin manufacturing PMI reached 51.6, passing the 50 threshold for the first time since August 2022,” adds Mr. Musy. As a result, inflation is expected to run at about 3% this year, 1 percentage point higher than in 2022.

Real estate sales go up

For the first time in 19 months, real estate sales in China have increased. The 100 biggest developers in the country have seen 15% higher sales in February compared to the same month in 2022. Nicolas Musy: “Though this is a modest increase after a 41.3% decrease in 2022 compared to 2021 overall, it still confirms that steps to support housing sales are having an effect.”

Exports and private investments a concern

However, not all economic data points are positive: For January and February combined, exports remain depressed at 6.8% lower than the same period last year. This is a less negative result than the 9.9% decrease of December 2022. Investments from the private sector seem not to have restarted, either. Musy: “Savings are very high, households are refunding their mortgages, potentially putting some small banks into loss territory.

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Entrepreneurs appear to be in a 'wait and see' mood." Both the President and the new Prime Minister Li Qiang have publicly re-emphasized the importance of the private sector and equal treatment for Chinese and foreign private investments. Nevertheless, no concrete policy measures have been carried out yet.

High quality development and innovation have been re-iterated as the new source for growth, which is widely believed to result in increasing business opportunities for Swiss and other Western companies. "As expected, China has decided to take advantage of the abandonment of its zero-covid policy to re-establish and further boost its international economic relations. As a result, visa issuance lead times for Chinese wanting to visit European countries are now reaching months," explains Musy.

Semiconductors & Artificial Intelligence

A cause for concern for China is the high-technology sector: In January and February 2023, China's imports of semiconductors and integrated circuits dropped 45% and 21%, respectively. "Unless China has been able to boost its local production enormously, this indicates that the US efforts at restricting sales of key semiconductors to China are having a considerable effect," emphasizes Nicolas Musy. China also seems under pressure when it comes to the development of generative Artificial Intelligence: "ChatGPT is blocked, and there are calls for developing a home-grown service. Considering the embargo on high performance chips and the censorship requirements prevailing in China, many experts see China falling behind in generative AI."

Picture legend: Nicolas Musy

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Picture legend: Swiss Centers China

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About the Swiss Centers:

Founded in 2000 as a non-profit Sino-Swiss public-private partnership, the Swiss Centers are by far the **largest cluster of Swiss companies in Asia**.

Swiss Centers' **practical solutions supported the businesses of over 400 companies** in China – both SMEs and large enterprises. Among them, the Swiss Centers have established more than 100 companies in China, both B2B and B2C, production companies and offices, active in various fields. In cooperation with the diplomatic representations in China, the Swiss Centers also conducts surveys that provide the most detailed expertise available on the situation of Swiss companies in China, and at the same time **promotes the Swiss Made brand** and Switzerland as a country for **quality, innovation** and **industrial leadership**.

With locations strategically situated on China's dynamic East Coast (Shanghai and Tianjin), the Swiss Centers are **constantly adapting to the needs of the Swiss economy**:

- Instant physical **office space** as well as **ready-to-use workshops, showrooms,** and **warehouses**
- **Relations with local Chinese authorities** and connections **to Swiss government and institutions** in China
- Support for secure technology transfer and **intellectual property protection**
- Access to **professional services** tailored to SMEs in all aspects of setting up and developing business in China (legal, tax, accounting, recruitment, HR management, IT, marketing)
- **Unique solutions** such as **hosting employees locally** or **storing and delivering goods** on behalf of clients in the Shanghai **free trade zone** to facilitate business development in China and the rest of Asia

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