



## China's International Import Expo

### China is Open for Business



### The CIIE ties into a broader economic, industrial and geopolitical strategy

China's President Xi Jinping on Monday will open the six-day inaugural China International Import Expo in Shanghai ("CIIE"). As one of China's key diplomatic events of 2018, this is far more than just another trade fair. It is a platform to demonstrate that China is open for business—and is set to open to the rest of the world even wider.

More critically, the CIIE marks an important public declaration of the government's new import-driven trade policy, which forms part of a broader design to boost consumption, drive Chinese firms up global value chains, and achieve self-reliance in critical industries.

China relied on export-driven growth for much of the first 40 years of its economic reform and opening-up period (the period of market reform launched by Deng Xiaoping in 1978 that spurred on the country's extraordinary economic rise). The government is now relying on the sheer size of its markets to entice trade partners to support its industrial, economic and geopolitical goals.

The focus on boosting imports comes as US-China relations continue to worsen. Washington in September slapped tariffs of 10 percent on \$200 billion of Chinese products and threatened to increase this to 25 percent by the year's end; all of China's exports to the US are in the crosshairs. But CIIE was unveiled in May 2017. It is not a direct response to these developments.

The CIIE is to demonstrate to the world that it also stands to gain from China's rise, and that initiatives like the Belt and Road are not just one-way traffic.

### Shopping for the Party



### The state will ensure local governments and firms spend big

More than 3,000 companies from more than 130 countries will be in Shanghai, showcasing products and services across seven categories, from high-end smart equipment and consumer electronics to food and agricultural products and trade in services. Political delegations from many of these countries will also attend, though overall not as senior as China would have hoped. Shanghai will be in lockdown to ensure there is no disruption or traffic that might hinder the movement of delegates. Businesses have been requested to shut for Monday and Tuesday (and instead work on Saturday and Sunday).

Deals will be made, and lots of them—the state will make sure of that. 150,000 buyers from across China, along with state-owned enterprises (SOEs) and local government delegations, will be present in full force under instructions to spend big. "We will mobilize import agents, dealers, wholesalers and retailers, producers and service providers," Wang Bingnan, a vice minister of commerce, said in July. Other deals, held back in anticipation of the event, will also finally be announced.

A parallel trade conference will be held on the first day of the CIIE, comprising three forums on “trade and opening,” “trade and innovation” and “trade and investment,” to promote Xi Jinping’s ideas on win-win cooperation and global development. This will be a time for visiting heads of state and government, as well as business leaders like Alibaba’s Jack Ma, and heads of international organizations, like the secretary general of the OECD, to pay homage to China’s ongoing opening and the opportunities it brings, and to efforts to increase connectivity in the face of protectionist headwinds. Expect some big trade and investment MoUs to gloss the proceedings.

## **Xi’s Speech**



**Xi will frame China’s ongoing rise as a global economic booster**

**Any new opening initiatives will be carefully calibrated**

**T**he CIIE has the imprint of China’s top leadership. Xi Jinping announced it in May 2017 at the Belt and Road Forum for International Cooperation in Beijing. Wang Yang, now Chair of the National Committee of the Chinese People’s Political Consultative Conference, China’s top political advisory body, oversaw initial preparations before his rise to the country’s supreme leadership body, the seven-member Politburo Standing Committee, when Hu Chunhua, a member of the 25-person Politburo, assumed responsibility. Execution of the event is managed by China’s trade ministry, the Ministry of Commerce.

Xi will preside over the opening ceremony, following weeks of hyped-up coverage of the event in local media, and deliver the keynote speech. He will once again highlight now-common themes—trade liberalization, economic globalization, win-win development, and common prosperity—buttressing China’s narrative that it is a provider of global public goods and champion of multilateralism. Xi is likely to stress China’s positioning as leader of the developing world, as many G20 countries have eschewed sending senior leadership to the event. These messages will come amid growing fears at home that China is overreaching internationally.

Xi will also celebrate the 40th anniversary of Deng Xiaoping launching market reforms and China’s development since. The Communist Party’s oversight of the country’s rise across this period, now framed as beneficial to all nations as members of what Xi calls the “community with a shared future for humanity,” will continue to be placed front and center. The implications for China are clear: if the Party has solutions for other countries, it remains unquestionable that it has them for China.

Business leaders will be on the lookout for new opening-up initiatives that might follow recent announcements in the automotive and financial sectors. Recent signs of economic slowdown might increase the chances here. Reforms, however, will continue to be calibrated at an appropriate speed in industries the government sees as mature enough for local players to handle or benefit from increased competition, or in areas where China needs it most, such as food and healthcare. The country will continue to lean on a raft of financial, regulatory and legislative measures to constrain foreign participation and promote domestic firms in other areas.

## The World as China's Factory



**The shift to imports is critical to boosting consumption and upgrading industry**

The CIIE is an important expression of China's bid to create a new macroeconomic growth model, based on high-tech production and domestic consumption. It is China's first national trade exhibition to focus solely on imports. It is certain to contrast with the export-oriented Canton Fair (since 2007 officially called the China Import and Export Fair).

Most of China's growth over the past four decades has been driven by export-led low-end production. But China has already hit "peak exports" as a proportion of total trade. It is gradually losing its competitive advantages in low-end manufacturing as its population ages and life expectations rise.

The plan is to upgrade and expand domestic consumption while deepening urbanization. More imports are part of this. The goal is to move large swathes of low-end production offshore, while introducing competition in key areas to drive prices down and quality (and buying) up. China wants more consumers to consume more.

This also ties into industrial policy. China is investing heavily in R&D to drive up the global value chain while channeling capital offshore towards purchases in the tech sector. Made in China 2025, the government's central industrial strategy, sets out a long-term vision to reshape production: a clean, green, hi-tech domestic manufacturing sector supported by low-tech goods and resource-intensive commodities imported from abroad. Self-reliance at the high end here is key.

China would like to see much of its imports in the future based on Chinese-owned IP and built according to Chinese standards (and preferably in a Chinese-owned factory, shipped via a trade and logistics infrastructure built by Chinese funds, and sold via Chinese e-commerce platforms). Developing standards is a critical focus of the government. China Standards 2035, currently being drafted by the Standardization Administration of China and the General Administration of Customs, is the next major industrial strategy, with an eye on shaping global production through the lure of China's markets.

Will the world become China's low-end factory? It is unclear whether China can make such a leap. But the impetus will nonetheless impact business as usual, presenting opportunities and challenges for businesses, especially as foreign governments push back.



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