Opinion **Chinese politics & policy**

# Foreign companies navigate China’s three-headed Cerberus

For the first time in 25 years a majority of US businesses no longer view the country as a top investment priority

**DAN WANG**

Beijing's Central Business District. The size of the Chinese market still appeals to western companies but slowing growth and political uncertainty are causing concern © Thomas Peter /Reuters

**Dan Wang** AN HOUR AGO

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Beijing's opening-up party took place last weekend in a notably subdued mood. The China Development Forum was a setting for western business leaders to gather with the new leadership that will govern the country for the next five years. While plenty of American chief executives attended, they made quiet entrances and kept their demeanours sober throughout.

As business grows challenging, who can blame them? In 2022, companies found their sales or their operations jammed up by China's zero-Covid strategy. US executives invested in the country face the prospect of being dragged to Capitol Hill to face hostile questioning from lawmakers. Recent headlines on the disappearance of China's capable tech dealmaker Bao Fan and a raid on the Beijing offices of Mintz Group offer no comfort. Small wonder that for the first time in 25 years a majority of US businesses no longer view China as a top investment priority.

It's time to acknowledge that today China is a complicated creature with three heads, like the Underworld watchdog Cerberus in Greek mythology.

Head one is the China of old: a vast market with unparalleled production efficiencies, which showers riches on the savvy. China's growth prospects continue to look appealing for many consumer-focused companies. Some, including Starbucks, McDonald's, and Ralph Lauren, are gearing up to open more stores there after Beijing's abandonment of the zero-Covid policy. And as the country focuses on dominating green technologies — in 2022 it became a bigger auto exporter than Germany — western companies can still count on plenty of growth sources.

But perhaps fewer of them can do so than before. That's where head two comes in. Think of Japan — an enormous market that probably won't boom again.

China's growth rates have gently slowed over the past decade, notching only 3 per cent in 2022, and the State Council's target of around 5 per cent this year is disappointingly low. The government is not fully confident of a recovery after the messy transition out of Covid lockdowns. A bigger problem, though, are those long-term issues which have been exacerbated by the pandemic. Demographics are becoming a drag on the economy and the critical property sector is close to a structural peak in demand as the pace of urbanisation slows. These headwinds have blown in earlier than expected.

The most alarming problems, though, have to do with politics. Meet head three: Russia, a large market from which western businesses may have to beat a hasty retreat. Before Russia's invasion of Ukraine, multinationals could comfortably put off thinking about Beijing's designs on Taiwan. That's no longer an option after Russian aggression invited devastating rounds of western sanctions.

Head three first reared up after former US president Donald Trump launched his trade wars. Multinationals had to start dealing with novel regulatory actions and growing complexities around export controls, data flow management, and US sanctions.

Congressional hearings have forced CEOs to answer for their operations in Xinjiang, their sponsorship of the Beijing Olympics and other activities that touch on human rights. Russia's invasion of Ukraine brings political friction into sharp relief. Foreign companies can no longer ignore what their home governments might do if Beijing decides to seize Taiwan. And that is alarming given that Beijing keeps forcefully restating its claim on the island.

Unfortunately for multinational companies, head three keeps on growing. Political problems threaten to suppress dynamism in the rest of China's economy. Last year was not only horrible for economic growth, it also raised doubts about the effectiveness of the Chinese state.

Investors could reasonably ask why President Xi Jinping stuck to the zero-Covid policy after the Omicron variant sent Shanghai into a two-month lockdown, only to give it all up later; why he embraced Russia on the eve of its invasion of Ukraine; or why he is reasserting party control over the business sector, and indeed society as a whole. Chinese entrepreneurs themselves are decamping in droves to Singapore. The prospect of five — and potentially even ten — more years of Xi's rule does little to soothe nerves.

Companies would be delighted to see head three withdraw. Indeed, Chinese policymakers insist that they value private enterprise. But who can be sure that ideology won't triumph again? If it does, foreign companies may find their assets stranded like the dead souls trapped in the underworld guarded by Cerberus.