How are foreign companies doing in China?

> *MNCs are now much more pragmatic about doing business in China – and gone is the euphoria of the 'indispensable' Chinese market.*

Over the past 30-plus years, foreign companies in China have experienced ups and downs, while witnessing the country's growing integration into the world economy. Despite the fact that China has evolved from being "the world's factory" into a market for multinationals, however, the passion of foreign companies for doing business here seems to have cooled. So, how will they weigh the new Chinese market in their future expansion strategies? And, what impact will such changes bring to China?

01

Foreign companies' journey in China

Multinational corporations (MNCs) have been operating in the Chinese market for more than three decades. There are at least two distinct dimensions of their activities in China, both of which are now experiencing headwinds for different reasons.

First, China has long been considered "the world's factory" – that is, MNCs have been manufacturing and processing products in China and exporting them to foreign markets since the 1980s.

Second, MNCs have long regarded China as an essential consumer market. Around the beginning of the 21st century, foreign brands started to sell products in China (some of which were also manufactured here).

From the 2000s to the late 2010s, foreign consumer brands continued to grow in China, demonstrating the willingness of Chinese consumers to purchase foreign products during that period.

Beginning in 2008, policies intended to boost domestic demand also encouraged foreign brands to enrich their product portfolio in China, moving from selling basic products to high-end offerings.

The appeal of undifferentiated global products started to wane in the late 2010s, however, fuelled partly by the growing popularity of traditional Chinese culture and domestic brands, such as Hanfu (a style of traditional Chinese clothing) and Chinese sportswear brand Li-Ning. The COVID pandemic further disrupted retail and logistics operations, weakening the development of foreign brands in the country, while geopolitics gave rise to a number of popular domestic products.

As a result, MNCs are now much more pragmatic about doing business in China – and gone is the euphoria of the "indispensable" Chinese market.

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02

Who will stay in China?

> They continue to benefit from an efficient and established manufacturing ecosystem that ensures high productivity.

In short, foreign companies such as Siemens, ABB and other non-high-tech manufacturers with well-established China-based production facilities and ongoing business needs in China and Asia are more likely to stay here. Although their operating costs in China are growing, they continue to benefit from an efficient and established manufacturing ecosystem that ensures high productivity. In addition to factories, this ecosystem also includes logistics infrastructure (such as ports and roads), as well as well-trained workers.

Luxury and strong global brands can continue to do well in the Chinese market, while those that fail to provide differentiated products and meet local customer needs (such as H&M and GAP) will lose ground. Brands with unique IPs and high-quality, reliable products and services (such as Coca-Cola) or those that offer more comprehensive solutions than those of Chinese manufacturers (such as Phillips Lighting) can also succeed.

While foreign tech and internet, consumer goods and electronics companies whose shares in China's consumer market have declined over the past decade will likely leave, in the short term, their departure may not have much impact on China's manufacturing industry, which will soon be harnessed by other companies or industries.

03

Strategic transformation in Chinese companies

> China should focus on encouraging MNCs to increase their commitment to the Chinese market and attract new MNCs.

While MNCs in China are now struggling with rising costs and declining margins due to slowing market growth, many don't see emerging Chinese players as a critical challenge yet since they possess organisational and management capabilities that are more effective, efficient, and sustainable for their targeted customer segments. Chinese companies, even the most successful ICT giants, for example, still suffer from structural, organisational, and management issues that hinder their ability to compete directly with MNCs for middle and high-income customers, though they are making progress.

China should focus on encouraging MNCs to increase their commitment to the Chinese market and attract new MNCs, especially those from other ASEAN countries.

In this way, China could evolve from being the "factory of the world" for established Western MNCs to an enabler of emerging market MNCs. Moreover, China should allow them to use its production base and market to compete with mature MNCs and local Chinese companies as a way of promoting development.