

NAVIGATING CHINA'S BUSINESS LANDSCAPE

Despite its rapid economic growth and many opportunities, doing business in China can be challenging for both domestic and foreign companies. Senior Editor, **Bridgette Hall** talks to the Criticleye Community on managing uncertainty and the road to business success in China

With a GDP of over \$16 trillion and a rapidly growing middle class in a domestic population exceeding one billion people, CEOs and Boards the world over need to have a strategy for China.

"If you are a global company or aspire to be one, then my contention would be you just cannot ignore China. Even if you are not, the chances are that some part of your supply chain is already in China," says **John Shelley**, Independent Non-executive Director at Standard Chartered Bank (China) Ltd and a Board Mentor at Criticleye.

It's long been stated that patience is required when looking to build out a presence in China, with a strong focus on building relationships. "You have to have a medium to long-term view," explains **John**, "and by that, I mean five, 10, 15, 20 years, at least. If anybody thinks they're going to go there and make money in three or four years, then they are likely to be disappointed."

Understanding both Party and Government politics is hugely important. The significance of President Xi Jinping securing a third term as General Secretary of the Chinese Communist Party (CCP) in 2022 should not

be underestimated and, in many ways, all roads to success for any business in China point towards supporting the latest Five-Year Plan [see box out]. Now in its 14th iteration, the five-year plans are a series of social and economic development initiatives issued by the CCP. The plans set out Government policy, industrial sector targets and the geographic areas the Party wishes to focus on.

After President Xi's consolidation of power in China with a third term as President, some feared a shift in focus to ideology. However, growing the economy is as important as ever, >



according to **Curtis Chen**, Chief Strategy Officer at Aegon. “Everybody is back to their economic targets. Every city, every province has economic targets, those didn’t change,” he says. “Direct foreign investment and attracting foreign [business] is still high on the list.

“You have to be aware of the Five-Year Plan, the economic priorities, not just of the Government’s Five-Year Plan, but major cities or major provinces, where you may be doing business can have a lot of influence on your ability to conduct business, or your ability to get licence approvals.”

Ian Stone, Independent Non-executive Director at Tencent and a Board Mentor at Criticaleye, agrees: “It is quite a milestone, being the third Five-Year Plan under President Xi – a lot of things have been consolidated, and brought together, under the Government and the Party. So, a lot of regulation that was always in the background has now been sharpened and brought to the fore.”

The emphasis on innovation continues to be crucial, as epitomised by the huge investment in the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area), which has a population of over 86 million. There are similar plans across China, such as the Yangtze River Delta integration plan - where Shanghai is located - and another for Beijing and its surrounding provinces.

John comments: “So the duties may be lower, there are tax breaks, licences will be easier to gain and there will be fast tracks for foreigners. If you’re a foreign company and you want to do business in China, you would be well advised to take advantage of the benefits offered in these zones. Researching them to

understand which could be right for your industry and developing relationships with the relevant city and provincial authorities is key.”

The stakeholder management piece is one of the many complexities associated with navigating the China market, explains **Curtis**: “We have to manage our stakeholders from our home market, as they come into China, and we have to understand who the people in China are that need to be influenced at government level. We need to figure out ways to have meetings with them and show them that what we’re doing

pursues their Five-Year Plan and pursues their objective of attracting foreign investment.”

George Yip, Professor of Marketing and Strategy, and Associate Dean for Executive Programmes at Imperial College Business School, says: “State-directed capitalism is the best way to best describe it. However, it’s not just the state making the investments, but they create a climate where they want private investment from Chinese and foreign companies. Of course, everything has to be approved and, if it’s aligned with the Five-Year Plan, it’s more likely to get that approval.” >

CHINA’S FIVE-YEAR PLAN – 2021-25

The Plan envisages renewed efforts to close the urban-rural divide, paves the way to peak carbon dioxide emissions before 2030 and reaching carbon neutrality before 2060. These objectives are reinforced by the longer-term perspective of the PRC’s Vision 2035, which lays down the path for the country to become a moderately developed country and a global leader in innovation by 2035.

The Plan has 20 quantitative targets, eight of them binding, under five categories: economic development, innovation, people’s well-being, green development, and food and energy security.

When reading the latest iteration of the 5-Year Plan, China’s goals include a focus on a “dual circulation” strategy, aimed at boosting domestic consumption, innovation and self-reliance, while also strengthening China’s international economic engagement. Green Development features with targets for reducing carbon emissions and increasing the use of renewable energy.

Rural Revitalisation includes measures to improve rural infrastructure, increase agricultural productivity and support rural entrepreneurship.

It also highlights innovation and technology, especially the development of key technologies, including artificial intelligence, semiconductors and 5G networks. The plan also seeks to strengthen China’s research and development capabilities and improve intellectual property protection.

The Greater Bay area, for example, is the linkage of the nine cities in Guangdong province’s Pearl River Delta, Hong Kong and Macau into an economically integrated world-class business hub. “By 2035, the Greater Bay Area should become an economic system and mode of development mainly supported by innovation, with its economic and technological strengths vastly increased and its international competitiveness and influence further strengthened,” the Plan states.



The electric vehicle manufacturing giant Tesla can be viewed as an example of innovation being welcomed by China, but only when it's woven into the overall strategic direction set out for the country. **George** says: "[Elon] Musk was able to negotiate the first ever 100 percent foreign-owned manufacturing company in the automotive sector because he was bringing something that the government didn't have. All the other auto production sites have been joint ventures."

However, things can change quickly, as experienced by companies across a number of sectors, including tech and education, and sometimes in ways that can be extremely challenging for businesses. **George** explains: "The difference in doing business in China is that even after it's approved, the Government can still intervene at any point. If you're moving down the track that the Government approves of, you're going to get less negative intervention, while also recognising that China is constantly trying to develop its own national champions."

"So, if the Government feels that your activities are suppressing the growth of national champions, that won't help you very much. It's straightforward – as long as you're bringing something to China that they don't have yet, then they will support you."

China, like myriad other countries around the world, poses a degree of geopolitical risk that multinational companies need to always keep their eyes on. Doing business successfully in China as a foreign company is achieved by compartmentalising your in-country operations, remaining neutral and separating the rhetoric and policies, according to **Curtis**.

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"For China, there's a lot of geopolitical noise, in addition to specific business opportunities. Whatever your industry is and whatever the business opportunity you think exists, you still have to try to conduct that business. In the face of any of a number of geopolitical scenarios, there is always disruption, or downright turmoil."

Despite this noise, **Curtis** explains that it's a condition you learn to accept and navigate when straddling stakeholders in China and at home. Building a successful business means understanding that on the one hand, China can be opaque and complex, but on the other hand, over the last 20 years the country has steadily opened up, become better regulated and more sophisticated. Quietly conducting business within these lines will set you up for success.

"You have to think inside the box," when it comes to China, **Curtis** advises. "Even though there will be political tensions from your home market, just don't take a side."

The rate of transformation and innovation is one of the most important things to note about operating in China. "It's quite a pragmatic market," **Ian** says. "Reputation is hugely important and [so is] maintaining a reputation for dealing well with your consumer and with your market. A consumer can really drive the way a market reacts, and they can switch a product path or service off overnight."

"You've got to really be close to the market and not just dive in there. You have to work with partners, people who know what they're doing and what's going on."

The China market holds numerous avenues for growth, whether in consumer spending as the nation's middle class expands, the manufacturing sector (which still outperforms some of its burgeoning rivals in India and Vietnam) or the green economy, as the Government tackles environmental issues including dangerous pollution across hundreds of Chinese cities. Unlocking that potential, however, requires a big picture view. ■

Featuring Commentary From:



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