


NAVIGATING CHINA'S ECONOMIC SHIFTS

Rethink, Rebalance & Reinvent



 China's economic recovery post-COVID has fallen short of expectations and is confronted with multiple challenges; nonetheless, it continues to make a significant contribution to global GDP, supported by government policies aimed at fostering high-quality growth. As a result, it is imperative for multinational corporations (MNCs) to rethink, rebalance, and reinvent their “*New China Strategies and Operating Models.*”



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CHINA STILL PRESENTS TREMENDOUS UPSIDES FOR MNC

China has been and will remain as an essential market for multinationals (MNCs), given its **sheer scale and global economic influence**.





Despite the slower growth, China's middle class continues to expand, with rising disposable incomes that fuel demand across sectors such as automotive, luxury goods, consumer electronics, etc. Such magnitude of growing consumption power makes China a unique marketplace that present enormous upsides for multinationals

At the same time, China's vast industrial ecosystem and world-class infrastructure offer MNCs efficient operation, extensive supplier network and globally competitive cost structure, making it a strategic hub for global growth.

For many MNCs, **China is not only a critical end market but also a hub of strategic importance** to secure and maintain competitive edge on a global scale.

The simple conclusion is, **China is too big and important to be ignored. On the other hand, the market is also evolving and comes with its challenges.**

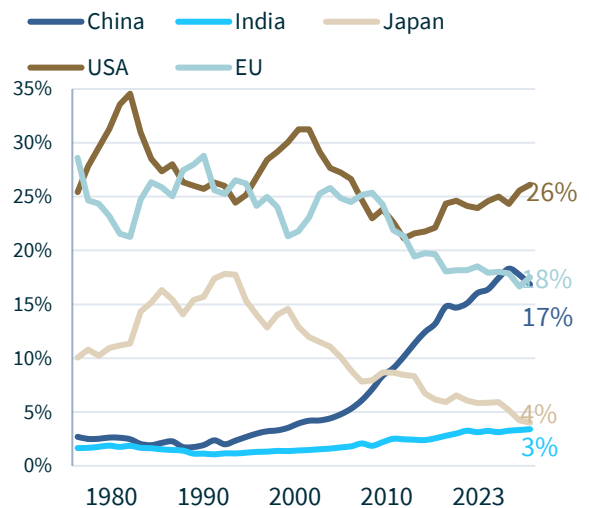
China significant share in global market in selected industries

-  ~30-35% of global production and sales
-  ~23% of global smartphone shipment, with China being the largest smartphone market
-  ~ 20-25% of global consumption, with Chinese consumers driving a significant portion of luxury demand
-  ~ 15.8% of global machinery production²⁾, making China a leading player in various machinery sectors

1) Indonesia, Malaysia, Philippines, Singapore, Thailand
2) VDMA: China machinery and equipment exports 2020

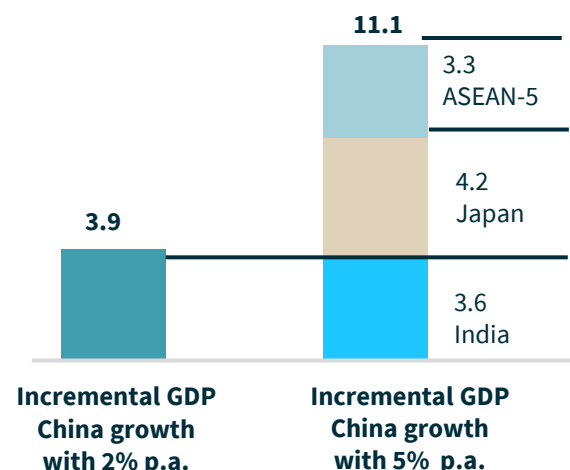
Share of Global GDP % at current price, 1980 - 2023

Despite of economic slowing down, China still accounts for **~17% of global GDP** in 2023, a share almost equal to the entire EU



China's incremental GDP (2024 - 2033), \$trillion (2023 real GDP)

Even if China will only grow at 2% during the next decade (2024-2033), the incremental GDP alone will be larger than Indian's real GDP in 2023. if at 5%, it will be as large as the 2023 GDP combined of India, Japan and ASEAN¹⁾





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CHALLENGES POSED BY EVOLVING ECONOMIC LANDSCAPE IN CHINA



ECONOMICS SLOWDOWN & STRUCTURAL SHIFTS

While China once experienced double-digit economic growth, the current pace has **slowed to around 5%**. It shifts from a real-estate & infrastructure-driven model to one **focusing on advanced technology, industrial upgrades, and domestic circular economy**. Companies must adjust their strategies to remain competitive in this new environment.



GEOPOLITICAL TENSIONS

The ongoing U.S.-China tensions have introduced significant uncertainty, with **tariffs and sanctions impacting multiple sectors (esp. in the high-tech sectors)**, driving foreign direct investment declined to **historic lows in decades**.



DEMOGRAPHIC PRESSURES

With an **aging population and a shrinking labor force** (1/3 of population will be above the age of 60 by 2050), **labor shortages and rising costs** are pressuring businesses across different industries. Companies need to enhance operational efficiency and productivity in many different ways (i.e. automation, digitalization) to offset labor constraints.



PUSH FOR LOCAL REPLACEMENT

The Chinese government's emphasis on local replacement to enhance domestic resilience and reduce reliance on foreign products and technology presents **challenges for foreign companies that purely rely on an import-based business model in the past**.



RISE OF LOCAL COMPETITORS

Chinese firms are rapidly gaining ground in areas such as e-commerce, electrification of vehicle, and automation, compelling MNCs to reassess strategies in innovation, localization and optimize costs to remain relevant and competitive.



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TURNING CHALLENGES INTO OPPORTUNITIES



STRUCTURAL SHIFT

- **Industrial Upgrade:** China's emphasis on and expected investment in upgrading its industrial base and rising demand for precision and high-quality manufacturing create opportunities for foreign advanced manufacturing machinery companies who are more technological advanced over their local peers
- **Consumer Market Expansion:** China's burgeoning middle class, which is expected to continue, are also becoming more choosy, calling for more tailored and individualized products and services for Chinese consumers.



AGING POPULATION

- **Automation and digitalization:** The declining working-age population leading to labor shortages and wage inflation creates overwhelming demand for products and solutions that replace physical labor with automated and digitalized solution that breeds opportunities for i.e., international automation solution providers and robotics suppliers to address and benefit from such demographic challenge.
- **Healthcare and BioPharma:** With an aging population and increasing health consciousness, opportunities for MNCs in pharmaceuticals, medical devices, and wellness products are also quickly on the rise.



PUSH FOR LOCAL REPLACEMENT

- **Localization:** Rather than viewing this as a threat, MNCs who embrace it by localizing strong R&D and manufacturing capabilities enabling them delivering "China-for-China" products and solutions, who also established efficient local supply chain and ecosystems, are more likely to remain competitive and deeply benefited.



INTENSIFYING LOCAL COMPETITION

- **Turning local competition into a strategic asset for foreign companies** - Competing in China provides foreign companies with insights into the innovative technologies by Chinese competitor, strategies and practices of highly competitive local firms, are invaluable and a "fitness gym" for MNCs adapting and refining their own business models, not just in China but globally.



NAVIGATING CHINA'S ECONOMIC SHIFTS

Rethink, Rebalance & Reinvent China Strategy & Operations

CALL FOR ACTIONS

Rethink

Business Strategy

MNCs should no longer rely on old playbooks. The key to **success in China lies in adopting a proactive approach** incl. localizing research and development (R&D), creating China-specific products, and integrating and leveraging local ecosystems to better compete and grow

Rebalance

Opportunity & Challenge

As opportunities in China shift from traditional industries to technology-driven sectors, MNCs should **adjust business and reallocate resources** to seize new opportunities while minimizing exposure to risks such as geopolitical tensions or adjusting China presence to preserve business value.

Reinvent

Operational Model

The ability to continuously **adapt to the evolving landscape** will define the long-term success of foreign businesses in China. This may involve adopting advanced automation, improving operational efficiencies, or developing agile supply chains that can withstand disruptions.

New China Playbook – Strategic Options

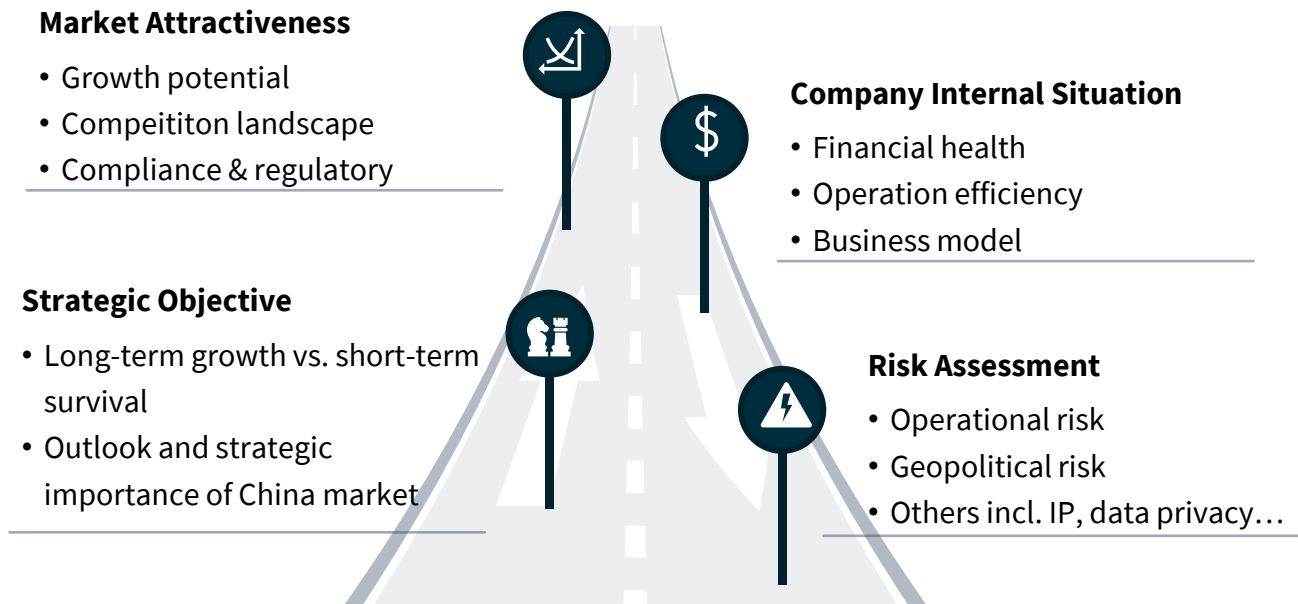
- 1 **Doubling-down on “China for China”**
Renew the commitment on enhancing or localizing production, supply chains, and R&D in the promising sectors, whether through new investments or by means of strategic partnership, inorganic growth approach
- 2 **Cost optimization**
Strategically optimizes spending while maximizes the business efficiency through streamlining processes, supply chain optimization, organization optimization, etc.
- 3 **Restructuring & Turnaround**
Stabilize financial and operational performance by addressing problems head-on and driving rapid change to thrive in the current fiercely competitive environment
- 4 **Exit Strategy**
Closure or divest non-core and/or underperforming businesses in China to ultimately enhance the shareholders’ return and create value for its core businesses/regions



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SELECT THE RIGHT STRATEGIC OPTIONS



In the dynamic and rapidly changing Chinese market, MNCs cannot afford to adopt a passive “wait and see” approach. Instead, they must proactively identify strategies that align with their unique circumstances and objectives. Given the distinct challenges faced by each company, a one-size-fits-all solution is simply impractical. We advocate for MNCs to implement a systematic framework (as illustrated on this page) to evaluate optimal strategic options. This may include enhancing their offerings to capitalize on opportunities in China, optimizing costs for improved efficiency, restructuring operations, or even considering a complete market exit.

IF A COMPANY IS ...	FOCUS LIKELY TO BE ...	WHAT STRATEGY
<ul style="list-style-type: none"> ▶ In a stable financial environment ▶ Developed a significant reliance on China ▶ Progressively losing its competitive edge due to cost disadvantages and failure to offer customized solutions 	<p>GROWTH</p> <p>EFFICIENCY</p>	<p>Doubling-Down</p> <p>Cost Optimization</p>
<ul style="list-style-type: none"> ▶ Experiencing “special situation” such as continuous loss, sharp decline of market share, etc. ▶ Facing unmanageable challenges that threaten business survival 	<p>STABILIZATION</p> <p>RECOVERY</p>	<p>Restructuring</p> <p>Exit</p>



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WHO HAS TAKEN PROACTIVE ACTIONS

Doubling-down on “China for China”

Danaher launched an ambitious “8080 Localization Plan” which aims to have 80 % of its future product sales in China manufactured locally.



Additionally, 80 % of the entire supply chain and sourcing activities will also be based in China as well

In addition to investing in local manufacturing capabilities to ensure supply chain efficiencies and responsiveness, **AstraZeneca** also established partnership with local research institute and universities to foster innovation tailored to Chinese patent's needs



Restructuring



GM is contemplating a significant restructuring to regain its footing in China, which include comprehensive cost reduction and a strategy overhaul toward producing premium models and electric vehicles

Walmart shifts from large traditional hypermarkets to Sam's Club and community stores, responding to evolving consumer preferences for convenience and healthier food, as well as competition from local retailers and e-commerce.



Cost Optimization



Volkswagen intends to cut the costs in China by 20 percent over the next three years compared with 2023. Savings will be made in areas such as fixed and labor costs



P&G adopted a strategy focusing on digital procurement technologies that leverage big data analytics and artificial intelligence. They optimize their supplier base and engage in strategic sourcing to drive down costs while improving quality.

Exit Strategy



Tesco exited the Chinese market by selling its stake in its joint venture with China Resources in 2020, focusing on core operations in the UK and Europe



Samsung shut down its last smartphone factory in China, located in Huizhou and moved production to India and Vietnam in response to the US-China trade war, increased competition from domestic rivals and declined market share in China's smart phone market



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DOUBLING-DOWN ON “CHINA FOR CHINA”

This approach provides a dual advantage for multinational corporations (MNCs), enabling them to seize growth opportunities while simultaneously serving as a strategic de-risking measure. By increasing their investment in China, MNCs can cultivate the autonomy necessary to operate and compete like local entities, thereby facilitating a more nuanced adaptation to the local market. Emphasizing a “China for China” strategy can further mitigate risks associated with geopolitical tensions, regulatory shifts, and market volatility.

Nonetheless, it is imperative for MNCs to undertake a thorough analysis of market dynamics, consumer preferences, and competitive landscapes. Additionally, companies should critically evaluate the prospects for sustained growth against the backdrop of potential regulatory challenges.

CASE STUDY

 COMPANY	Global leader in material testing machine and operating via import model and cooperating with distributors in China
 CHALLENGES	Stagnant sales performance and challenges in penetrating into new sectors through current business model in China
 RESULTS	<p>Implementation of “China as 2nd Home Market” strategy</p> <ul style="list-style-type: none"> ▪ Transfer certain value chain to China to enhance competitiveness ▪ Acquisition of leading Chinese competitor
 OUR APPROACH	



What to Enhance/Localize

- Market attractiveness & dynamic assessment to identify promising sector(s)
- Competition landscape to gain visibility of commercial imperative for localization
- Regulatory assessment to understand the urgency to localize



To What Degree

- Voice of customer to probe customer perceptions of potential localized products and explore any concerns
- IP risk assessment and management
- Evaluate the pros & cons, feasibility of various localization scenarios



How to Implement

- Development of localization strategy and roadmap
- Localize production of selected product lines in China
- Advise Company A to acquire one of the leading Chinese competitors

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COST OPTIMIZATION

Cost optimization is the strategic process of reducing expenses while enhancing or maintaining business efficiency. The primary objective is to maximize profitability by identifying and eliminating inefficiencies, waste, and superfluous costs within an organization. This optimization can encompass a variety of approaches, incl. streamlining operations, renegotiating supplier contracts, automating processes, and leveraging technology more effectively.

CASE STUDY



COMPANY

Global leader in precision connectivity solutions and operating through 3 business units and several plants in China.



CHALLENGES

Increased competition and declining profitability prompted Company to seek business enhancement through supply chain optimization



RESULTS

22 new suppliers and 64 qualified samples had been phased in, delivering nearly **CNY 20 million saving on annual basis**, representing a **cost down of c. 12% of its annual procurement spending**



OUR APPROACH

Data Collection and Spend Analysis



- Collect organization structure, R&R, procurement process, spend data, supplier contracts, etc. for analysis
- Spend analysis to understand the key purchase categories/items, supplier base, price baseline, etc.

Stakeholder Interview & Opportunity Identification



- Gain higher transparency in current practice and requirements in each category through stakeholder interview
- Identify fields of improvements and develop cost saving initiatives

Opportunity Sizing, Refining & Validation



- Saving opportunity forecast based on spend insights, procurement hypothesis and market benchmarking
- Validate/confirm and gain buy-in from various impacted internal stakeholders

Implementation planning & execution



- Formulate a high-level roadmap of organization upskilling/transformation & realizing saving opportunities
- New supplier phase-in execution and monitoring

Initial spend analysis

List of validated opportunities and initial saving ranges

Saving realization



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RESTRUCTURING

Restructuring entails implementing strategic changes to a company's organizational structure, operational processes, or financial framework to enhance survival, efficiency, adaptability, and competitiveness. Organizations typically pursue restructuring in response to financial distress, evolving market conditions, shifts in consumer demand, the necessity to improve operational efficiency, or the need to realign their strategic objectives for sustainable growth.

OUR SOLUTIONS IN RESTRUCTURING

STABILIZATION



Risk Management | Quickly identify immediate issues, develop & implement immediate action to prevent further decline

Liquidity Management | Ensure adequate cash flow & financial stability, incl. cost control and short-term financing solutions

Working Capital Optimization | Assessing & optimizing working capital to ensure liquidity and operational efficiency

RESTRUCTURING & TURNAROUND



Organization Re-design | Organization redesign and streamlining, managing layoffs or redeployment, and aligning talent with target

Supply Chain Transformation | Assessing and optimizing the supply chain network for better cost-effectiveness, efficiency and resilience

Footprint Consolidation | Optimizing company's physical and operational presence to improve efficiency and reduce overhead costs

RESTRUCTURING OFFICE



EAC typically act as an interim independent Restructuring Office to advise, oversee and manage the entire restructuring process together with company's board, management and other key stakeholders

Short-term



TARGET

Stabilize operations and address immediate issues to ensure business viability and survival

Medium-term and onwards

Restructure the business to improve efficiency and set the foundation for recovery, and transform the business stay resilient

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EXIT STRATEGY

Exit strategy typically refers to divestment businesses in China to ultimately enhance the shareholders' return and create value for its overall businesses/regions. It is sometimes pursued when the business is experiencing continuous pressure but also in many other cases that the shareholders wish to capitalize and monetize their businesses

CASE STUDY



COMPANY

Company C is a leading player providing sun-shading solution and set up production, sales & service capabilities in China for over 15 years



CHALLENGES

- Business was largely impacted by the weakening real estate sector with continuous losses since 2019
- Significant number of accounts payable to the headquarter with limited capability to repay immediately



RESULTS

- Successfully sell the 100% stake to a consortium of incumbent management and financial sponsor in 6 months with attractive purchase price
- Ensure the seller benefit from future business upsides via IP (brand) license and raw material supply beyond purchase price consideration
- Minimize the negative impact of brand image of Company C in China



OUR APPROACH





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Business Transformation is imperative

Contact our experts directly to discuss potential support options

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EAC – YOUR PARTNER OF CHOICE IN ASIA

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For four years in a row, EAC has been one of the best management consultancies in Germany.



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