



FINSBURY COVID-19 INSIGHTS

View from Beijing – China’s Two Sessions Analysis

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Despite the fact that the current business environment looks to be mixed and complex, there are positives for MNCs that have businesses interests with China. The question they face is how they should position themselves in the current phase and what steps they can take around their communications engagements. Agnes Zhao, Head of Finsbury’s Beijing office gives her recommendations for businesses.

The convergence of China’s ruling elite at the long-postponed “Two Sessions” – the annual meeting of its national legislature and the top advisory body – was widely viewed as a sign of confidence that China had gained control of the COVID-19 pandemic within its borders.

At the same time, it provided a clear insight that China is still pushing a strong, positive message for businesses coming into the country.

The 2020 Government Work Report delivered during the Two Sessions included ‘vows to stabilise foreign trade’ and ‘measures to better utilise foreign capital’. The government also unveiled specific plans including pilot free-trade zones in the Central and Western regions.

Elsewhere, China has also taken important steps to show its continuing warm stance towards global companies. For example, immediately before the Two Sessions, state media Xinhua News Agency led the reporting on Premier Li Keqiang’s congratulatory note to US industrial conglomerate Honeywell after it opened a regional headquarters and innovation centre in Wuhan, the epicentre of the COVID-19 outbreak.

This caught the attention of China observers because it is unusual for a mid-size investment to merit a personal note from such a senior state leader. Interestingly, statistics released by China's Ministry of Commerce shows that the actual national utilization of foreign capital in April was RMB 70.36 Billion (approximately USD 10.14 Billion), an 11.8% year-on-year increase.

Unfortunately, the more upbeat business view may not continue in coming months.

China is facing one of its most turbulent times in international relations with the US and other trading partners such as the UK, Australia and the European Union, and is facing an economic slowdown that prompted the country's leadership at the Two Sessions to announce the drop of the gross domestic product (GDP) growth target, which will ensure more space for recovery and healthier fundamentals, but also indicates that the economic outlook might be worse than expected.

On the subject of market access, critics argue that while complaints from multinational companies (MNCs) about the hurdles and trade barriers they face in China have been channelled to the right authorities in recent years, and significant progress has been made in areas such as financial services, the playing field is still too far from level.

There have been questions too about the details of the initiatives that were unveiled at the Two Sessions, claiming they are too vague for implementation, while MNCs may query the benefits of the new free trade zones because they are planned for regions that are rural and raise complex market access issues.

Global brands are also likely to face severe reputational challenges and scrutiny in their home markets if they choose to comply with the Chinese government's request to set up operations in politically sensitive areas such as Xinjiang.

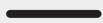
Complicating matters further is the increased pressure many MNCs are under to diversify their supply chain away from China. This may prove to be a longer-term headache as some of the MNCs we have spoken said that they do not currently see a supply chain disruption in China.

They did add, however, that they will take more factors into consideration in the future while setting new strategies. This will include questions on how to handle the business disruption brought by the COVID-19 lockdown, how to ensure supply chains can operate in parallel if one is closed down and which platforms to use for communications when offices are closed and travel, even for essential executives or workers, is curtailed or halted.

RECOMMENDATIONS

Despite the fact that the current business environment looks to be mixed and complex, there are positives for MNCs that have businesses interests with China. The question they face is how they should position themselves in the current phase and what steps they can take around their communications engagements. We would advise the following:

- **Update the China strategy as China puts more emphasis on domestic consumption and directs the market players' business activities towards this direction.** Moving forward, MNCs must realise this is a new era of doing business in China. Supply chain diversification or duplication, instead of total relocation seems to be a key to solve the puzzle.
- **Put in place a capable and agile government affairs team and constantly review your government affairs strategy.** All the while, vigilance around stakeholder engagement especially public affairs will be critical to success. With China becomes the second "home market" for many global enterprises, these enterprises need to show the willingness to become trustworthy partners by providing sustainable products and services, taking into considerations of China's social and economic priorities as laid out in the Two Sessions and the 5-year plan, and collaborate with local partners for China's economic and social advancement to achieve win-win outcome.
- **Put an emphasis on innovation.** As China quickly advances to be the world leader in terms of technology, especially in the 5G sphere; also as the world economy continuously faces the downward pressure, China stresses more on quality growth. Innovation has become the new engine of the digital economy. This in turn requires foreign investments to hold innovation as one of its top priorities when developing its China market than viewing it as a place to dump the obsolete products and technology. It is the high time to invest in R&D and promote an innovative culture to be viewed as the valuable partners.
- **Adopt a layered communications approach.** This is especially important for MNCs with big presence in China – enhance the corporate profile and reputation as a trusted and responsible brand at the corporate or central level. At the same time, Heads of business units can lead product communications to showcase the innovative success driven by high performance team to enhance the knowledge and understanding on the individual products and offerings.
- **Act sustainably.** This ties in with the companies' strategy to look at things over a longer term. One of the changes that COVID-19 has emphasized is communities and corporates realize that people have to act together. More companies are moving toward a higher ESG standards, no matter they are operating in developed or developing markets. The stepping up of sustainability efforts by MNCs will help to unite their employees and supply chain partners, as well as get the government buy in.
- **Stick close to the embassies and chambers of commerce.** These government entities and associations have proven to be very effective channels to voice support for their enterprises and channel concerns to the working groups at equivalent China government agencies. Especially during the COVID-19 crisis, Embassies and chambers of commerce worked hand in hand with MNCs to help negotiate with China government to fly back the essential foreign staff and senior executives, and to mitigate the supply chain disruption. They will continuously be a support and source of information going forward.



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