De-risking China necessitates a 'whole-of-company' approach

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Foreign multinationals operating and investing in China are facing a widening, rapidly changing and less predictable risk landscape driven by a combination of market, regulatory and economic factors; and because the deterioration of the geopolitical environment is hindering their ability to respond to them. Against this backdrop, how to de-risk China has become a topic of intense discussion at the board level.

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By now it is clear that China's exit of zero-COVID failed to deliver the growth rebound that the market expected, both in terms of magnitude and rapidness. Instead, the country's economy is losing momentum amidst softening demand, weak confidence levels, and a persistent property downturn. While this is unlikely to lead to a "Lehman moment" as some headlines suggest, risks to the country's growth outlook are certainly tilted to the downside. Engineering a turnaround to this situation will be a challenging endeavor, as it requires addressing deep-rooted, demand-side structural imbalances generated under China's old development model.

The implication is clear: China might enter a period of below-potential growth that will impact negatively business profits, and in response to which MNCs will have to recalibrate their China strategies to defend their market shares. However, planning requires predictability, and this is in very short supply at the moment due to rising geopolitical

volatility and tensions between China and the West. MNCs are facing a widening, rapidly changing and uncertain risk landscape.

Not only are MNCs getting caught in the crossfire of policies and regulations driven by national security considerations; but they are also facing higher risks of reputational damage, public backlash, and boycotting due to the effect that the politization of Sino-Western relations is having on nationalism and public opinion. Moreover, the reduction in channels of communication and rising mistrust between China and West has increased the risks of geopolitical 'Gray Swans' events. These are conceivable but improbable events that can trigger significant business disruption, such as Russia's invasion of Ukraine.

Against this backdrop, how to de-risk China has become a topic of intense discussion at the board level. While the answer to this question necessarily varies company-to-company and sector-to-sector, an effective risk management strategy requires a 'whole-of-company' approach that involves global headquarters and their subsidiaries in China and other regions; and that breaks down silos to promote cross-functional collaboration. There is certainly no one right formula to achieve this, but from my work at The Conference Board's China Center, several recommendations stand out:

1. **Invest in HQ-China alignment.** China is a top target market for MNCs, which means that the China team is working with a large number of concerned people at global headquarters, many of whom have no China experience. China leaders need to invest time and resources to educate global executives on the market, and help them understand regulations and consumer trends, so that they can respond to meet China's unique demands. The alignment goes both ways, as the China team also needs to cognizant of the MNCs' strategic predicaments and goals globally.

2. **Establish a cross-regional and cross-functional working group.** This would be in charge of leading the 'whole-of-company' approach to risk management, and should therefore assemble senior executives from global HQ, China and other relevant regions with the required subject-matter expertise to perform assigned responsibilities in an optimal manner. The working group should establish a safe space to enable candid and objective discussion about some very sensitive topics. Given the multidimensionality and complexity of the risk landscape, seniormost executives in charge of risk management, communications and government affairs should be part of this group.

3. **Maintain message discipline.** External communications delivered out of headquarters. China, and the rest of the world, on issues the company is facing in China, need to be consistent across all markets. The development of cross-functional and cross-regional reputational risk management capabilities is imperative to this end; especially when considering the increasing pressures that non-China based senior executives are facing to take a stance on societal issues that are increasingly taking on

political tones.

4. **Build a narrative of your value proposition that resonates with China's development priorities.** Competition for the China opportunity is likely to intensify and increase in complexity against a backdrop of slowing growth, rising national security concerns, and public sentiment volatility. To capture the opportunity, MNCs need to be clear that they are in China for China. This requires paying close attention to policies and initiatives to identify the development gaps that the government wants to address, and that MNCs' comparative advantages are best placed to bridge. Once this is done, MNCs can build a narrative around their value proposition that resonates with authorities and the public, and that makes it clear that they are contributing to achieving China's development priorities.

5. **Be proactively agile in risk management.** Operating in China when the government is managing new external and domestic risks, and making frequent institutional, regulatory and policy adjustments, requires MNCs to be proactively agile to reduce the need for crisis management plans, and instead build operational resilience against today's increasingly disruptive environment. Contingency planning and scenario analysis is therefore imperative.

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