WEF Horizon Scan: Six Building Blocks for effective Corporate Strategy-Making in China today[1]

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Introduction

This Horizon Scan looks at how foreign businesses can approach **corporate strategy-making** in the rapidly evolving Chinese market and competitive environment specifically by also factoring in domestic policy as well as geoeconomic and geopolitical factors. From practicing within the diversifying field of specialized China strategy consulting lessons from trial-and-tested foreign business strategy-making have emerged, which this contribution summarizes into **six building blocks**: 1) shared epistemic, 2) deeper intelligence, 3) clear strategic choice, 4) refined capabilities, 5) earned HQ-subsidiary trust, and 6) effective execution.

These six building blocks are briefly introduced in turn:

Building block 1: Shared epistemic

The first thing to agree on is **how to epistemically look at and analyze the 'Chinese market'** as seen by a foreign business, which companies most often simply treat as one among 20+ markets in the APAC region in terms of organizational structure and financial reporting.

Even more so than before in times of persisting geopolitical tensions and geoeconomic fragmentation, however, it is important to understand the 'Chinese market' more clearly also as a **state** that pursues its distinct strategic objectives, enacts policies and shapes its foreign (economic) policy initiatives for rulemaking and connectivity.

In fact, conceptually, since 1992 China's market is a **'socialist market economy'** (社会主义市场经济) in which the 'state economy' is the 'leading force' and Five-Year-Plans – since 1953 – actively steer policy, financial and other resources in line with government's reform, policy and development priorities.

Moreover, the 'Chinese market' can be also seen as a **socio-economic reality** that has undergone a deep transformation in the past decades, albeit stratifying now with declining social upward mobility while boasting more parallel-existing generations in terms of experience, values and outlook than ever before in contemporary China – this is also not captured by a simple market lens.

Not to be too reductionist yet rational and empathetic to the Chinese context, a **political economy lens** seems to be a particularly useful **analytical framework** to analyze the 'Chinese market' and business environment by looking at the evolving structural interplay between China's government and its economy, and thus inherently offering a view that is relevant for foreign business and takes a longer time-horizon than zooming-in on Chinese elite politics or the latest US-China diplomatic spates.

Adding a diachronic view of China's policy evolution over time can better account for China's development state and allows to see how both incremental and more radical reforms are happening.

[1] https://intelligence.weforum.org/topics/a1G680000008h3zEAA

One political economy approach is to focus on **structural transitions**[2], a concept originating in Chinese academia and further refined in consulting practice, providing a logic to interpret and calibrate diverse phenomena in the Chinese market ranging from "crackdowns" and industrial policy to China's social credit system, anti-monopoly policy or overcapacity. Structural transitions are also better at reflecting the complexity of China's policymaking today.

Building block 2: Deeper intelligence

Foreign businesses usually understand their own value chain – understood as direct customers, suppliers, distributors or important industry event such as trade fairs – very well. However, to detect **strategic shifts** in China's broader business environment early-on that can represent either opportunities, challenges or risks, deeper intelligence is needed.

Already conventional **market and competitive intelligence** (MCI) is demanding in China due to market dynamics with extraordinary entrepreneurial ambition and risk-taking, as well as the unusually large number of players across a large and diverse, yet increasingly integrated geography.

Such deeper intelligence can be generally gained through **monitoring more ambitiously, timely and granularly**, by better covering **policy and international affairs factors** as non-negligible intelligence dimensions, or by using **scenario thinking**.

Some intelligence examples that can make a difference for foreign business include the more conscious observation of the top-level in China's policymaking, the monitoring of business network formations in one's value chain, the deeper analysis of the underlying strategic demand drivers or evolving digital economy and digital marketing through social media, or – simply – how business model practices of peers and competitors are shifting.

For instance, in understanding how the Chinese government conducts **risk management**, in the EU known as "de-risking" and economic security, its impacts on a specific business sectors in China usually won't be detected unless policymaking and policy articulations at top-level are monitored and analyzed.

With Chinese government taking a more proactive role since the 14th Five-Year-Plan (2021) both in China's innovation value-chain as well as how supply chains are formed, it has become more critical to understand how OEM-supplier **relationships** are orchestrated, potentially leaving out foreign business.

With China's growth model evolved to High-Quality-Development including slowing real GDP growth rates, deeper intelligence is required to analyze the solidity of strategic demand drivers "behind" the customer market. Yet, even a validated **strategic demand driver** promising attractive CAGR projections – for instance for a strategic new venture growth initiative of foreign business in China – needs to stand the test against the China-specific risk that this very opportunity may be seen by thousands of entrepreneurs at the very same time, which could lead to fierce competition and eventually overcapacity if pursued.

China's **digital economy** is undergoing constant change regarding business models, content and customer journeys unabatingly challenging go-to-market "habits" of foreign business, while digital marketing through social media platforms have reached ever stronger levels of concentration with broadened coverage of audiences through differentiated channels.

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[2] Six structural transitions: economic transition and industrial upgrading, market-oriented reforms and market governance, economic globalization, domestic demand system, social rebalancing and economic security, at https://www.chinamacro.ch/_files/ugd/0bb9bf_a16139d7d76741508ae5513568e7c297.pdf and https://www.nse.pku.edu.cn/en/people/Faculty/245730.htm

For competitive intelligence – acquired legally and fairly – it is crucial to go beyond hearsay and anecdotal evidence from ex-employees of competitors or media reporting, but could be tracked systematically along a detailed **framework of sector relevant business model practices**.

Finally, also **scenario thinking** (e.g. for domestic policy development, geopolitics, Chinese supplier strategies) is a form of (forward-looking) intelligence exercise, where the combination of a precisely argued and fact-checked baseline as starting point with rational extrapolations of future developments can yield critical insights.

Building block 3: clear strategic choice

A core element of strategy-making is **to make fundamental choices**. Fundamental choices create strategic clarity to guide resource allocation and execution more stringently.

Aside from exiting the Chinese market all-together, **foreign business have three fundamental strategic choices** regarding China. First, engaging opportunistically or without a longer-term view due to business pressure in sectors facing up to newly enforced policy (e.g. anti-monopoly) or novel market governance instruments (e.g. volume-based procurement), second, doubling down with “in China for China” strategy or third, strategically leveraging the Chinese market for value creation beyond the China operations.

The **first fundamental strategy** makes sense for latecomers, firms with weaker innovation capacity and differentiation or if a sector’s utility is not (yet) recognized in China’s policy system, for instance China’s financial system which is seen to “serve the real economy” and not as an economic sector per se, or China’s healthcare system which is only recently moving from being seen as a core government function to functionality that can be provided by market entities, yielding e.g. market liberalization to foreign players in free trade zones such as in Shanghai or Hainan so far.

The **second fundamental strategy** of “in China for China”, essentially creating a self-sufficient China operations serving China-based customers and fit for the Chinese jurisdiction, can be required for market or domestic policy factors, as well as corporate “de-risking” .

Market factors include the need for more locally tailored products and innovation, higher customer proximity, more local decision-making and faster speed, plus generally more effective local engagement by corporate functions (cf. building block 4).

A key **policy factor** is China’s need for more “self-reliance”3 (自立自强) in designated sectors which includes rules or incentives driving import substitution or requiring local content.

Corporate “de-risking” under this second strategy is about ring-fencing operations and localizing supply chains plus identifying no-regret moves that make the China operations less vulnerable to geopolitical escalation and supply chain risks.

To identify such no-regret moves it is useful to work with **distinct fundamental scenarios** (e.g. base case today, escalated geoeconomic fragmentation, kinetic escalation) to (stress-)test a firm’s organization and operations today. From a HQ perspective, diversifying investment into and duplicating regional functions in third markets (e.g. in ASEAN) is also an option.

It should be noted that the second strategy does not need to strictly limit itself to the Chinese domestic market but can include the pursuit of business opportunities through China’s (policy-backed) corporate **“going out”** as well as its deepening **connectivity resources** with third-countries.

[3] Cf. EUCCC-CMG report “Riskful Thinking: navigating the politics of economic security” (https://www.chinamacro.ch/post/new-euccc-cmg-report-riskful-thinking-navigating-the-politics-of-economic-security)
to see all measures adopted by Chinese government for risk management in the Chinese economy.

The **third fundamental strategy** is to be ambitious domestically, while unlocking value-add from a firm's China operations for the group globally or regionally. Such value-add levers include (inter-company) supply, exports, R&D, products and innovation, talents, corporate services and governance functions. These levers are premised on the absence of policy-driven "decoupling" affecting one's business and sector, at least into the foreseeable future, reliant on specific intelligence (cf. building block 2).

Building block 4: refined capabilities

Some key capabilities of foreign business in China require refinement in terms of **functional expertise, resourcing and empowerment within the China operations** and are particularly relevant to execute on the latter two strategies (cf. building block 3): public and government affairs (PGA), strategic marketing, external scouting/alliance/partnering or corporate social responsibility (CSR) are some key examples.

PGA functions build trust and relationships with local authorities, engage in industry associations, explore policy benefits such as subsidies and awards, collect and analyze policy intelligence (cf. building block 2), steer the agenda of the 'Country President' as the firm's most senior "lobbyist" according to materially ranked PGA priorities and explore opportunities to engage meaningfully in a business environment characterized in recent years by increased state agency.

Strategic marketing (not marketing communications, or MarComms) is about proactively and strategically positioning a firm's value proposition by orchestrating visibility, messaging and third-party endorsements across the broader value chain, a lever not yet fully tapped by foreign business.

External scouting/alliance/partnering is a novel outward-orientated corporate function that screens especially the local R&D, venture and broader business environment for critical resources and capabilities to invest in, or to partner and collaborate with. A potentially crucial (inorganic) "shortcut" to speed and resourcefulness across the value chain of foreign business.

Corporate social responsibility as a function performed by foreign business becomes more important to position a firm's business in the Chinese market as in line with today's more explicit ideological expectations of acting like a "role model of giving back to society" (回报社会的典范).

It is under the "high-quality development" that today's leadership in China has lifted the importance of inter-regionally balanced development and societal equality, plus puts more boundaries on capital deployment to protect social policy objectives.

Building block 5: earned HQ-subsidiary trust

Based on rapidly evolved risk perception and security needs, Chinese leadership since the 20th Party Congress in October 2022 has been putting more emphasis on more **self-originated and self-referential concepts** such as "Chinese-style modernization" (中国式现代化) or "cultural confidence and cultural self-reliance" (文化自信与文化自立自强).

This means that foreign subsidiaries in China today are part of an environment that increasingly communicates about itself in own concepts and language, making communication between foreign business' HQs and their China operations more demanding.

Therefore, HQs need to invest in more **general "basic" understanding** of China's polity, political economy and policy today, while subsidiaries need to both **innovate and assert how they explain the Chinese business environment** to their HQ counterparts in a critical yet balanced and realistic way.

Effective HQ-subsidiary communication builds trust and enables **shared strategic assessments** as basis for taking (bold and effective) long-term business decisions such as investments, M&A or partnerships, effectively constituting a novel source of competitive advantage especially over foreign competition facing this same communication challenges.

Building block 6: effective execution

Execution is the crystallization of strategy-making. The role of HQs in this stage is – broadly spoken – to let go and not to “micro-manage”, and by doing so to avoid distorting decision-making due to HQ-centricity, which is multiple layers away from end-client and the real dynamics in the value chain. A set of factors, however, that still require HQ attention in strategy execution include corporate culture, compliance and cross-functional dialectics.

Texture, paradigms and incentives of a subsidiary’s corporate culture needs to be actively understood and guided, least as part of earned HQ-subsidiary trust (cf. building block 5).

Legal and regulatory compliance in China as a management issue in times of legislative dynamism, local standards drafting or the corporate social credit system (CSCS) as innovative governance instrument also needs interfaces to HQ for mutual understanding.

HQs certainly can’t simply prescribe how the influence among corporate functions shall be distributed within the China subsidiary, however, cross-functional dialectics should be actively shaped – e.g. with smart HR decisions and strategic visibility – to ensure that all corporate functions can command resources and deliver impact effectively and in line with their role mandate.