

# Resetting Your China Strategy and Operations: Navigating the New Normal

April 2024

ALVAREZ & MARSAL  
LEADERSHIP. ACTION. RESULTS.™

China macro-economy outlooks and implications for MNCs doing business in China



# Executive Summary

---

## “The Next China is China” amidst evolving macro-environment dynamics

- Lower-than-anticipated figures have led to widespread concerns, primarily among the Western media, over the prospect of China's economic development
- China's post-COVID economic recovery has coincided with a critical period of economic transition, which poses multiple challenges simultaneously to China's economic growth
- China's contribution to world GDP is anticipated to remain significant, making substantial contributions to future global GDP growth
- The Chinese government has implemented a series of monetary, fiscal and commercial policies to ensure high-quality economic growth and still has “ample policy space”

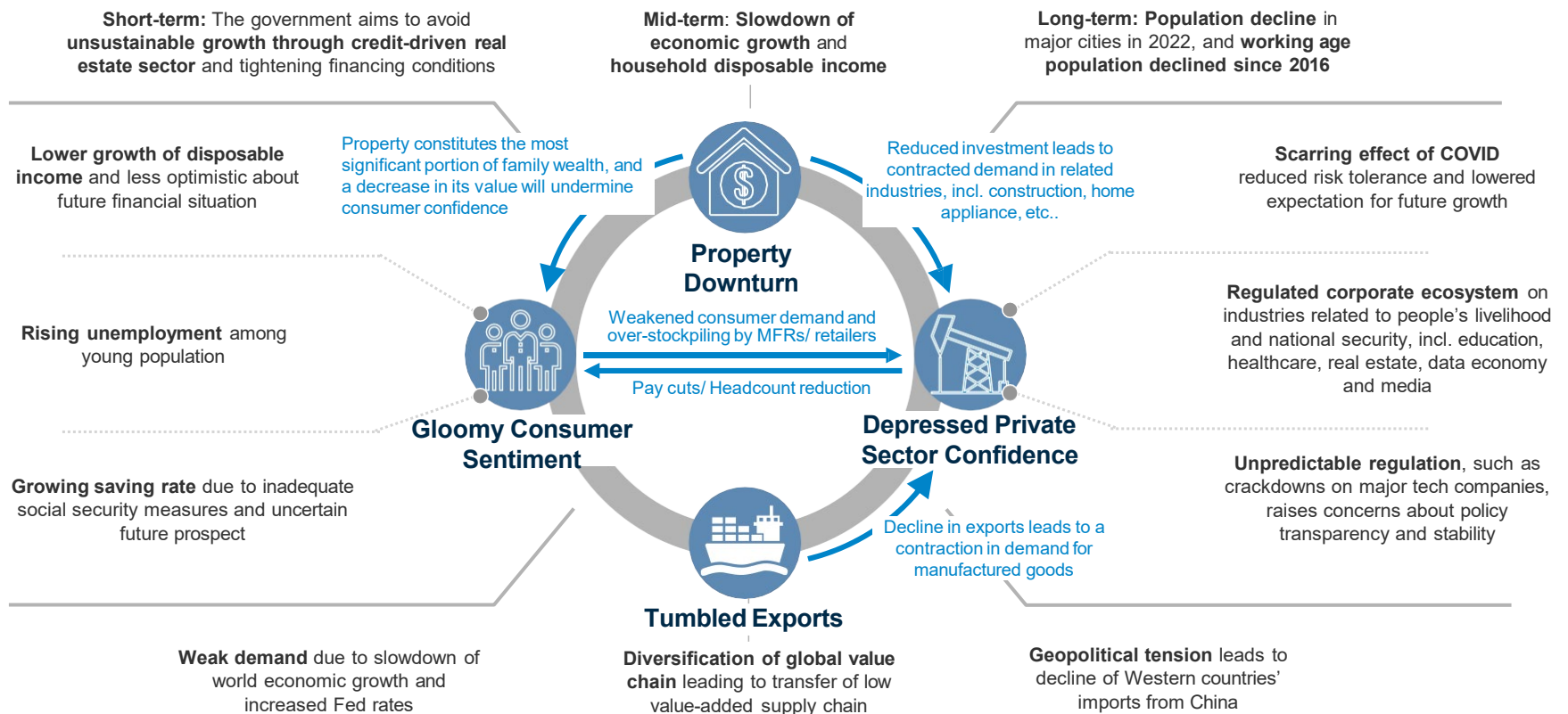
## We see fundamentals and opportunities in place from mid to long term, underpinned by new macro-environment dynamics in China

- **Three enduring trends:** China continues to be an appealing narrative for MNCs, remains a critical player in the global value chain, and is evolving into a premier global learning hub
- **Three emerging shifts:** China's growth trajectory is transitioning towards a slower yet qualitative pace, undergoing structural transformations, while global geopolitical tensions are on the rise

## Opportunities always come with challenges for MNCs in China. MNCs now must make careful choices to re-adjust their China strategy. Strategic implications for MNCs are in the new era: 3 dimensions and 4 decisions

- MNCs meticulously evaluate three pivotal dimensions in their China strategy: **Transnational benefit / risk**, **Sector attractiveness and dynamics**, and **Ability to win / ability to contribute**
- Depending on their position within these 3 dimensions, MNCs can choose from 4 strategic options to navigate their business in China – **Localize to thrive**, **Carve out to compete**, **Diversify from China**, and **Exit China**. Leading MNCs have been recalibrating their China strategies
- Each decision underscores the imperative for MNCs to realign their equity structures, decision-making and governance, brand positioning, product innovation, supply chains, talent management, technology and data strategies in China

# China's post-COVID economic recovery has coincided with a critical period of economic transition, which poses multiple challenges simultaneously to China's economic growth

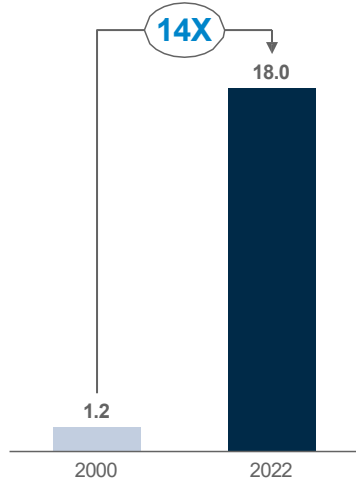


# China's contribution to world GDP is anticipated to remain significant, making substantial contributions to future global GDP growth

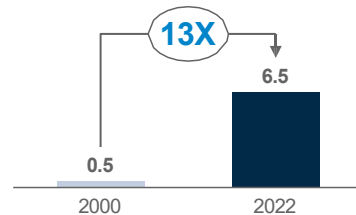
**China has grown into the world's second-largest economy with GDP and consumer market comparable to US**

**Looking ahead, China continues to make a substantial contribution to global GDP growth**

China GDP (\$ Trillion)



China Domestic Final Sales (\$ Trillion)



China as % of US

12%

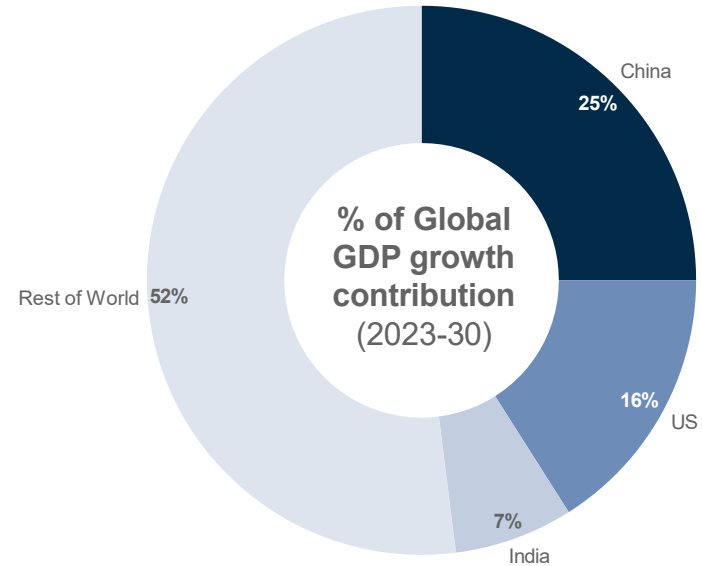


70%

14%



81%



Source: NBS, National Bureau of Statistics of China, World Bank, analyst reports, lit research, A&M analysis

# The Chinese government has implemented a series of monetary, fiscal and commercial policies to ensure high-quality economic growth and still has “ample policy space”



The Central Bank  
- Monetary Policy



## Unveiled economy growth stimulus

**25 basis point cut** announced for the five-year loan prime rate (LPR) in February 2024.



Loan Liquidity

Cash requirement ratio reduced in March and September 2023, and in February 2024, providing **1 trillion RMB** liquidity for commercial banks



Structural financing tools provided for lower-cost financing to support target industries like agriculture, green economy, and technology



The Ministry of Finance  
- Fiscal Policy



**Tax reductions** for small businesses and individuals extended until 2027, with further structural tax reductions expected post the central economic conference



Bond

Approval granted to issue an additional **1 trillion treasury bonds** in October 2023 and another **1 trillion** in 2024 for natural disaster reconstruction and catastrophe prevention



Central Economic Work  
Conference/State Council  
- Commercial Policy



**China lifted foreign investment restrictions in 2021**, removing barriers in auto, telecom, and planning to do so in manufacturing, medical, and professional services. **The 24-Point Guidelines and Action Plan** aim to attract foreign investment, facilitate data flows, and business travel



Efforts to promote **industrial innovation, digital economy, AI, and bio-manufacturing** are underway



Measures to boost domestic demand include **shifting consumption to tourism, entertainment, smart homes, and NEVs through tax reductions and fund withdrawals**

## Future policy space

### Interest rates can be further reduced to boost investment and consumption

- Near-zero inflation allows for controlled inflation, maintaining a higher real interest rate than Western countries

China's major banks have a 10.5% cash requirement ratio, higher than Western counterparts, and can be **further reduced for liquidity**

**China's government debt** remains low compared to Western countries, indicating room for growth financing

- Based on BIS<sup>1</sup>, China general government debt-to-GDP ratio is around 79%, while western countries (US 110%, UK 101%, other EU around 92%) and Japan (229%)

**Focus on promoting 'New Quality Productive Forces,'** especially in tech industries like AI, biotech, and green development

Government aims to streamline the Law of Government Procurement to **facilitate MNCs in securing government contracts**

Efforts to align with **high-standard international economic and trade agreements (CPTPP)** include further removing barriers to foreign investment, reducing tariffs and subsidies for fair competition, and relaxing data security regulations for foreign investment flexibility

Notes: 1) Bank for International Settlement  
Source: China Government Websites, CITIC Securities reports, A&M analysis

# We see fundamentals and opportunities in place from mid to long term, underpinned by new macro-environment dynamics in China

## Enduring trends...

<p>China is still your <b>APPEALING STORY</b></p>	<p>China is still playing a vital role in <b>GLOBAL VALUE CHAIN</b></p>	<p>China is evolving into a <b>GREAT GLOBAL LEARNING GROUND</b></p>
<p>Vast consumer market, rapid urbanization, government support, and a significant P&amp;L contribution</p>	<p>Global value chain still highly relies on China's supply chain, technology and raw materials, particularly under government's promotion of "new quality productive force"</p>	<p>The Chinese market has a huge consumer base, and the intense competition is a test field and playing field for innovative ideas and business models</p>

## Emerging shifts

<p>China will experience <b>SLOW BUT QUALITY GROWTH</b></p>	<p>China is undergoing <b>STRUCTURAL CHANGES</b></p>	<p>Globally <b>GEOPOLITICAL TENSIONS</b> are on the rise</p>
<p>As China's economic size grows, economic growth will inevitably slow down, as reflected by the Japan and Korea's growth pattern</p>	<p>China is undergoing structural changes marked by a transformation from Quantity to Quality growth, which will reshape the business environment for MNCs</p>	<p>US-China decoupling, Taiwan tensions, Russia-Ukraine war, Israel-Hamas war, energy crisis, China's unique positioning in a multi-polar world</p>

# MNCs must carefully assess three key dimensions in their China strategy

○ Emerging dimensions

● Established dimensions

## Transnational Benefit / Risk



- **Geopolitical and Economical tensions:** Trade restriction, tariff and cross-border capital flows across sectors
- **Consumer behavior:** The rising importance of reciprocal perception and corresponding behavior between China and foreign consumers toward each other's products
- **Technology transfer / data privacy:** Restrictions on core tech collaborations, cybersecurity and data transfers
- **Cross-border capital outflows:** Challenges in capital exchange affecting MNC financing

## Sector Attractiveness and Dynamics







- **Regulatory environment:** Government regulations on foreign ownership, technical standards, supply / demand dynamics, and investment restrictions
- **Sector attractiveness:** Diverse sector behaviors in market size, growth levers, Chinese ecosystem and competitiveness
- **Unique “rule of games”:** China's distinctive success factors, business culture, and regulatory environment compared to other countries

## Company's Ability to Win / Ability to Contribute



- **Strategic position:** MNC strategic positioning based on market share, margins, brand leadership, competitiveness, and financial strength
- **Local empowerment:** HQ empowers local offices with a China-centric operating and governance model
- **Resilience and active risk management:** Ability to adapt to challenges and prepare for uncertainties
- **Corporate citizenship:** Contribution to the Chinese government's agenda through taxes, job creation, R&D, and ESG initiatives

# Depending on their positioning within these dimensions, MNCs have four strategic options for managing their China operations

STRATEGIC OPTIONS BASED ON BRAND AND BUSINESS LINE ANALYSIS	1 Localize to thrive 	2 Carve out to compete 	3 Diversify from China 	4 Exit China 
Transnational Benefit / Risk	Low risk / More favorable	Medium risk/less favorable	High risk / least favorable	High risk / least favorable
Sector Attractiveness and Dynamics	Highly attractive with minimal regulatory/market constraints	Moderately attractive with some regulatory/market constraints	Moderately attractive with some regulatory/market constraints	Least attractive with unique regulatory and market constraints
Company's Ability to Win / Ability to Contribute	High	High	Medium	Low
SCENARIOS	<ul style="list-style-type: none"> <li>Compete in an open sector</li> <li>Integrate China and global operations for research, production, and market access</li> </ul>	<ul style="list-style-type: none"> <li>China is a significant business contributor, but mindful of its unique characteristics and regulatory challenges</li> <li>Prioritize "China for China" as a key success factor</li> </ul>	<ul style="list-style-type: none"> <li>Demonstrate industry capability in selected segments</li> <li>Maintain control over the Chinese market while mitigating risks</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory barriers discourage foreign investment</li> <li>Domestic competition intensifies, impacting competitive advantage</li> <li>Limited HQ management capacity and reach</li> </ul>
STRATEGIC IMPLICATIONS AND PATHS	<ul style="list-style-type: none"> <li><b>Act Locally:</b> Scale to become leader through organic growth, JVs, and tech investments; Establish full China P&amp;L</li> <li><b>Benefit Global:</b> Leverage China experience for global market benefits</li> </ul>	<ul style="list-style-type: none"> <li><b>Carve-out</b> part / all the operations and preserve business value</li> <li><b>Sufficient autonomy</b> to think, act and compete like local companies</li> </ul>	<ul style="list-style-type: none"> <li><b>Refocus business as a niche player</b> with a meaningful China presence</li> <li><b>Reduce capital risk</b> through JVs with local partners; Consider HKEX/China-A listings</li> <li><b>De-risk supply chain</b> with a "China+1" strategy</li> </ul>	<ul style="list-style-type: none"> <li><b>Consider majority stake sale</b> to domestic firms or private equity</li> <li><b>Closure</b> of China operations</li> </ul>



China has been the MNC story over the past two decades. Now is the time to rethink holistically about **navigating a profound shift** in Chinese business landscape

---

**Assess your starting line**

Analyse your strategic position, opportunities and risk exposure in China, considering dynamic shifts in your sector in real time

---

**Refine your ambition and approaches**

Redefine China's role in your global strategy and align your goals, capabilities, and operations with current realities

---

**Plan and execute the implementation**

Take a future-focused lens to sequence proactive measures and invest for long-term growth



## Who to reach out to

---



**Huan Gao**

Managing Director

[hgao@alvarezandmarsal.com](mailto:hgao@alvarezandmarsal.com)



**Ryan Cai**

Senior Director

[rcai@alvarezandmarsal.com](mailto:rcai@alvarezandmarsal.com)

Alvarez & Marsal Holdings, LLC. All rights reserved. ALVAREZ & MARSAL®,  
A|® and A&M® are trademarks of Alvarez & Marsal Holdings, LLC.

© Copyright 2025

