NAVIGATING UNCERTAINTY

Building resilience and agility into your China strategy

ADAPTING TO CHANGE IN CHINA – BUT HOW?

One of the final recommendations in Business Sweden's January 2020 report 'A New Era in China' was to "prepare for turbulence". Despite our timely call-out, no one could have predicted the Covid-19 pandemic and all the turbulence that would follow. Apart from the direct impact on people and businesses, the pandemic has accelerated frictions in the global trade system, highlighted weaknesses in supply chains with over-reliance on global efficiencies (e.g. just-in-time), as well as laid bare other questionable assumptions and potentially unhealthy dependencies.

We are now beyond preparing for turbulence, and rather need to consider how to manage businesses in a time of high uncertainty and continuous disruptions in China and the world.

Although the Chinese economy has kept growing throughout the pandemic, growth has been both slower and more unpredictable than in previous years. Companies that previously saw perpetual growth in some industry segments now risk facing shrinking revenues, intensified competition, and market share erosion. There has also been unpredictability on the supply side, with production site shutdowns, inventory shortages, and transportation backlogs. A larger part of the turbulence in China comes from policy choices made over the past decade. At the same time geopolitical risk in the region has increased considerably. Russia's invasion of Ukraine has highlighted the actual risks more than anything.

Despite all the headlines of decoupling and mostly negative opinions concerning China, it remains an important market for Swedish companies. In fact, the reliance on China as a market is hard to overstate. For many industrial companies China is the number one market globally as well as the most important manufacturing location. Today, China accounts for 30 per cent of global industrial output,[1] which can be compared with the US in second place well below 20 per cent. China is simply put difficult to replace.

This report, Navigating Uncertainty, aims to summarize the disruptive climate that Swedish companies experience in China and puts forward a framework for how to 'exist' in this new context. Swedish companies need to ensure that they are equipped to handle emergencies and "just-in-case" scenarios, as well as safeguard company operations, key business functions, and technologies. It is imperative that companies stay agile enough to not only *react* to risks, but to also *act* on opportunities stemming from the changing business environment.

[1] Brookings, World Economic Forum

PER PORTÉN

Market manager Shanghai

per.porten@business-sweden.se

JOHAN THURÉE

Project manager

johan.thuree@business-sweden.se

FRIDA HAAPANIEMI

Consultant

frida.haapaniemi@business-sweden.se

AN IRREPLACEABLE MARKET

Sentiments about the Chinese market have cooled considerably over the past few years and are now at a new low. Public opinion in Sweden reflects part of this, with 80 per cent expressing an unfavourable opinion of China in 2021.[2]

There is a multitude of factors contributing to this, including a slowing economy, more complex and challenging market dynamics, Covid restrictions, a stricter policy environment, and China being more assertive on the world stage.

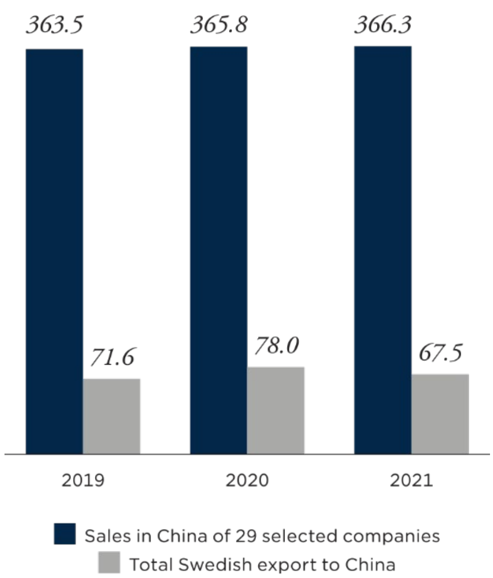
But even so, China remains an important market for Swedish companies who also often continue to invest in the market. So before discussing the challenges and disruptive events affecting businesses in China, it is worthwhile to remember why Swedish companies are in the Chinese market and what it means for their revenues and profits.

China as a growth driver

China today accounts for over 18 per cent of global GDP and accounted for one third of global growth between 2011 and 2021.[3] With its size and growth trajectory, China has historically been a key driver for many industrial companies and has also to a large extent supported growth in other Asian markets.

Because of this, China is often outlined specifically in companies' income statements. For the 10 largest Swedish industrial companies in China, the share of global revenues coming from China in 2021 was on average 14 per cent.[4] But it is not only the 10 largest industrial companies that are seeing high share of sales in the market. The 29 companies among the 100 largest Swedish companies

Swedish companies' sales in China compared with total export from Sweden to China (BSEK)



[2] Pew Research Center, Washington, D.C. (2022)
[3] World Bank Data
[4] Business Sweden Global Sales Analysis

who produce China specific results had together total sales of SEK 366.3 bn in 2021, more than five times Sweden's total export to the market.

But apart from direct sales in the Chinese market, it is also important not to forget companies' indirect dependency on China due to the country's outsized role in global value chains – a customer in Germany might be relying on exports to China. As such, many Swedish companies are not only directly reliant on the market from own operations, but are also indirectly reliant on it through the operations of its customers and partners. The business success and resulting revenues in and from China is therefore in extension also a large contributor to employment in Sweden.

China as a manufacturing superpower

China continues to be referred to as 'the world's factory', which is a fair assessment, and it is not hard to understand why manufacturing companies choose to be here or why many source from China.

China has been an attractive destination for manufacturing industries for several decades due to its low labour costs, a large and technically skilled workforce, several manufacturing clusters, and good infrastructure. Foreign companies have also taken advantage of China's supply chain efficiencies to keep their costs low and margins high.

As a consequence of its renown as a manufacturing base, China accounted for approximately 28 per cent of global industrial output before the Covid-19 pandemic. Following the pandemic outbreak and the early success of Beijing's pandemic management, this number has since increased to approximately 30 per cent in 2022.[5]

China is also a hotbed for so-called manufacturing 'lighthouses' – factories that are early adopters and implementers of advanced manufacturing and AI-driven technology, at scale – where estimates show that China had 37 per cent of global manufacturing lighthouses in 2021.[6] These lighthouses not only show the way in how digitally infused operations can create significant productivity gains, but also demonstrate a new way of creating sustainable and profitable growth.[7]

[5] State Council Information Office of the PRC
[6] World Economic Forum (percentage based on number of lighthouses located in China, not necessarily Chinese ownership)
[7] McKinsey, The manufacturers lighting a path to sustainable growth (2021)

China as an innovation leader

Over the past couple of years, China has proven that it is an innovation force to be reckoned with. During the period of the 13th Five-Year Plan (2016-2020), China managed a slew of significant innovative feats, including climbing from 29th to 14th place in the Global Innovation Index, as well as becoming the world's leading filer of patents.[8]

These achievements have been possible due to an active industrial policy and major government efforts to improve China's innovative capabilities. China has established several medium- and long-term plans for science and technology development (most well know of which is Made in China 2025), in which there is abundant state funding set aside for prioritized and strategic sectors, including artificial intelligence (AI), electric vehicles, and semiconductors.[9]

Beijing's efforts to boost innovation function somewhat akin to a venture capital firm. The government bets on (or, if you will, throw money at) a broad spectrum of promising or innovative technologies in the hope that there will be one or a few that will make up for the investment with interest. While those in favour of a less hands-on approach to dealing with the innovation, note that this approach might lead to an inefficient allocation of resources, zombification of companies, and outright fraud, China's electric vehicle and battery cell industries are examples of success. AI is yet another area where China could become the premier superpower in the years to come.

For many companies, China therefore provides opportunities to both tap into the local innovation ecosystem through partners and suppliers, but also to view emerging trends and to tap into the local talent pool.

China as an influencing factor regionally and globally

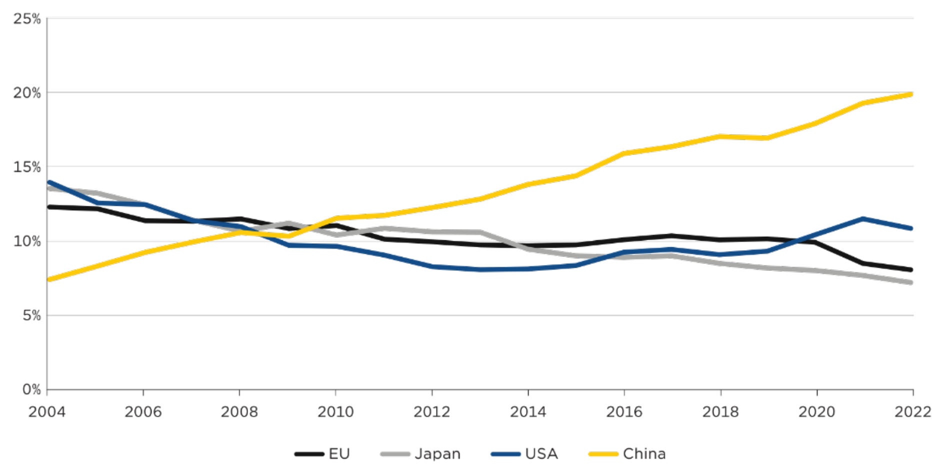
But there are also other factors that makes China an important hub.

China has been Southeast Asia's largest trading partner for 12 consecutive years, reaching USD 516.9 billion in 2020 and accounting for about a quarter (24.7%) of

[8] The UC Institute on Global Conflict and Cooperation (IGCC)
[9] The 10 priority areas of Made in China 2025 are new generation information technology, robotics, aerospace equipment, maritime equipment and high-tech shipping, advanced rail equipment, new energy vehicles, renewable energy, agriculture technology, new materials, and biomedical and medical devices

ASEAN's total foreign trade of goods that year.[10] And the interlinkages go both ways. In 2020, ASEAN overtook the EU and the US to become China's largest trading partner. In addition, Chinese FDI to ASEAN accounted for 6.7% of total FDI to the region in 2020, with China being the fourth largest FDI source after the US, Hong Kong, and Japan.[11]

ASEAN's Major Trading Partners (% share of ASEAN's total trade value, import + export)



China's role as a growth driver is clear also outside of APAC. The country is the leading trade partner of roughly 130 countries around the world,[12] where China notably was the source of the 'commodity boom' and unprecedented growth in LATAM years 2003 to 2013.

Another factor of note is the importance of China for regional and (to a lesser extent) global standard setting. Given China's innovation power and its influence in APAC, China is increasingly dictating standards in the region and hence lengthening its reach outside its borders.

China is as such not isolated. What happens in China will have a decisive effect on not only the region, but the whole world. Despite the discussion about decoupling, abandoning the market is for most companies just not a feasible option given its importance not only in a domestic but also international context.

---

[10] Hong Kong Trade Development Council, The Growing China-ASEAN Economic Ties (2022)
[11] Ibid.
[12] Foreign Policy, Locking China Out of the Global Order Could Backfire (2022)

LARGE UNCERTAINTY AND DISRUPTIVE ENVIRONMENT

Going back a decade, the expectation (or perhaps hope) from the foreign business community was that China would continue opening up and let market forces play a more decisive role in the economy. However, things have largely moved in the opposite direction. Administrative reforms are strengthening the role of the State in many areas, including economic and technological development, Communist Party cells are required in private firms, and state-owned enterprises are taking up a larger share of the economy.

This opens up many questions about the trajectory of China and the overall uncertainty does not help attract investments. Our most recent Business Climate Survey for mainland China shows increased pessimism about the market with the ranking of the business climate down to the lowest level since 2017.[13] Half of Swedish companies still have plans for investing in the market, but there has been a downward trend of investment appetite during the past few years.

The uncertainties and disruptions can be seen in four domains, all with potentially large negative impact on Swedish companies:

- Ripple effects of a slowing economy
- Policy disruptions
- Geopolitics and trade frictions
- Force majeure

Ripple effects of a slowing economy

Most Chinese economic policymakers increasingly recognize that China's growth model has reached its limits. Growth has for the past 20 years been investment driven and highly debt fuelled. What is becoming more apparent is that a large part of spending has gone to generating activity rather than productivity.

It is now estimated that China's national debt level accounts for more than 280 per cent of GDP, with a large uptick in the first half of 2022. The troubled infrastructure

[13] Team Sweden's Business Climate Survey for Mainland China 2022

and property sector is at the core of this problem, and was in 2021 estimated to account for up to 30 per cent of GDP.[14]

There are however no easy fixes for this issue, and new growth sectors, such as digital infrastructure (5G and data centres), AI, and semiconductors, will not be able to fill the gap from a distressed construction sector. But one option is to transition to a more consumption driven economy given that this component of GDP is very low.[15] To stimulate increased consumption, however, would require redistribution of income primarily from local governments to household, which is politically difficult to achieve due to vested interests and heavy adjustment costs.

A large part of the financial burden of ensuring growth is falling on local governments (provincial and city level) who are now squeezed by increasing cost related to Covid and lower revenues primarily due to declining land sales. They are tasked with the seemingly impossible of stimulating growth without using the old playbook relying on leverage.

Another disruption in the market is the increasing role of State-Owned Enterprises (SOEs). They are less effective, and are now taking up a larger share of the economy. This development can affect Swedish companies, given that they can be both competitors and important customers.

A slowing Chinese economy will have ripple effects within China and will also be felt through the global economy. We already see this affecting companies and specific industry segments with revenues falling up toward 40 per cent. The weaker demand can also be seen in deteriorating imports from traditionally strong trading partners such as Germany and South Korea.[16]

Policy disruptions

To a large extent, disruptions in China stem from policy decisions. This is despite most policies being well-intended and aimed at addressing economic, environmental, and societal challenges. And it is not only the policies themselves creating disruption. Local interpretation and implementation is highly uneven between provinces and, unfortunately, often unreasonable from a business perspective. The policy landscape has also become more rigid at a critical time, when ability to adapt to new challenges is increasingly important.

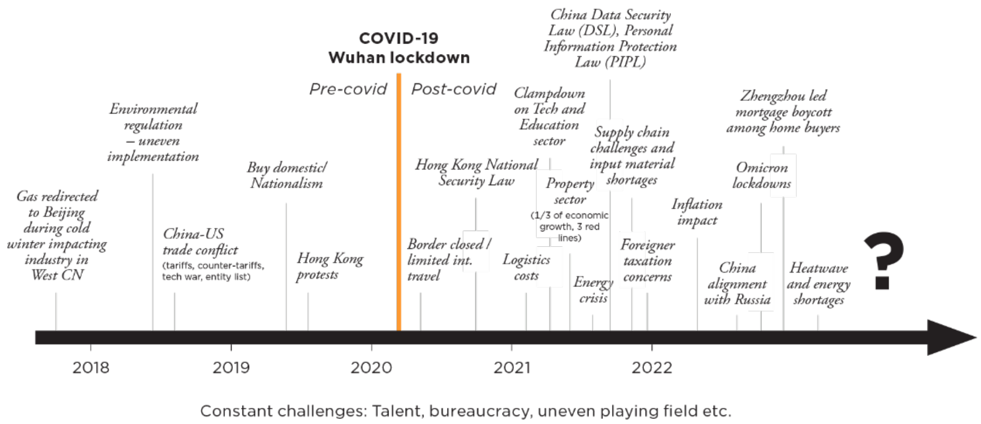
The policy having had the largest impact on China since 2020 is undoubtedly the zero-Covid policy. It has made doing business with and in China much more difficult and resulted in delayed or even cancelled investment plans. Cross border travel restrictions have certainly not helped bridge differences in a time of increasing friction in trade and bilateral relations. But the fact that the zero-Covid policy is now taking so much

[14] Statistical estimates from America's National Bureau of Economic Research indicate that real estate, including allied activities, contributes as much as 29% to China's GDP
[15] World Bank Data: Consumption share of GDP in 2021 in China was 38%, significantly lower than the US 67% (2020), the EU 51%, and the UK 61%
[16] CSIS, South Korea's First Trade Deficit with China: Stirrings in the Global Tech Sector (2022)

space does not mean that the impact of other policies has been reduced. There is rather a net increase in policy disruption.

Policy decisions are intrinsically linked with what happens in the economy. Examples are the "three red lines" and their impact on the property sector,[17] the One Child policy and the resulting demographic "ticking timebomb" (despite attempts to reverse it), the Common Prosperity policy's impact on the tech and education sector, just to mention a few.

(Non-exhaustive) list of disruptive events in China over the past 5 years



Perhaps the most worrisome policy direction is the accelerated drive for self-sufficiency. This ambition by the Party is not new, but dates back to before the founding of the People's Republic in 1949 and has informed Beijing's strategic initiatives ever since. More recently, programs for indigenous innovation, such as the National Medium and Long-term Program for Science and Technology (2006-2020) and Made in China 2025, detail China's ambitious innovation agenda. Especially the latter, followed by the acquisition of Kuka by Midea Group, served as a wakeup call for foreign governments and companies to China's ambitions. Explicit targets of how large market share Chinese companies should control within key technology areas has further accelerated the shift in US and European views of China from a partner to a strategic competitor. Since the start of the US-China Trade Conflict, the self-sufficiency drive has become more urgent based on the Chinese conclusion that western partners cannot be relied upon. This ultimately culminated in the Dual Circulation Strategy, China's new approach to economic growth in the New Era. The strategy aims to move China away from export-led growth and towards growth driven by domestic demand and innovation in order to better protect the Chinese economy against "disturbances" in external markets and the increasingly tense geopolitical context.

Adding to the self-sufficiency push are buy-local requirements witnessed in some industries. This begs the question on the definition of what "local" means, if it refers to locally produced, produced by a JV, or produced by a Chinese-owned company.

---

[17] The China Project, China's 'three red lines' policy to safeguard the property sector isn't working yet (2022)

Geopolitics and trade frictions

The strategy of 'hide your strengths and bide your time' that China has lived by since its early years of opening up has to a large extent been abandoned. China has with its economic rise become more assertive on the global stage and more eager to challenge the liberal-democratic model to ensure its own interests. With escalating rhetoric, threats, and provocations between primarily the US and China, the risk for miscalculation has increased.

China's strategic alignment with Russia described as a "friendship without limits" is yet another concern for western governments. This alliance is primarily forged by the shared interest of countering the influence of the US. What has really set off the alarm bells in many boardrooms is China's "absence of denunciation" after Russia's invasion of Ukraine. This has given urgency to the question surrounding the future of Taiwan and what consequences a conflict in the region would have.

China's assertiveness and bilateral trade frictions have already affected companies with tariffs, increased complexity from export control measures and an expanding US entity list, a new level of weaponization of trade and economic nationalism. An escalation and potential confrontation would have consequences on a whole different level.

In contrast to the frosty relationship with primarily western countries, China has also become a welcome alternative to the West in emerging economies. China's own growth journey has made it a legitimate partner in these countries' development. Over the past few years, this engagement has to a large extent been channelled through the Belt and Road Initiative (BRI). Countries as far away as Argentina have signed up to the initiative, hoping to attract resources to develop their infrastructure. Yet China has run into some problems in mitigating the risks of this large initiative and is now facing its first "overseas debt crisis", where many of the debtor countries are facing solvency issues.[18] How China manages this challenge will have large consequences for its image globally.

It is worth to keep in mind that China's actions on the world stage are to a large extent (if not exclusively) driven by domestic issues and internal politics. Although the image of China's leadership is of total unity and alignment, some see China's assertiveness as a sign of weakness and internal political opposition and power struggles. China's domestic politics are definitely something companies need to factor into their strategies going forward.

[18] Financial Times, China reckons with its first overseas debt crisis (2022)

Force majeure

China's growth over the past decades has also had a sever negative environmental backside. As the flooding in Zhengzhou and the extreme heatwave in central China during the summer of 2022 has shown, China is just as vulnerable to the effects of climate change as most other countries around the world, if not more.

But there are also other major events that have and can affect operations in China, such as social unrest, deadly pandemics, and energy disruptions. Both in 2021 and 2022, China experienced severe power outages in manufacturing hubs like Jiangsu and Sichuan provinces. Such developments were inconceivable just a few years ago, but are already disrupting Swedish companies manufacturing and supply chains.

How these energy outages will affect Beijing's climate ambitions remains to be seen, but if the solution is a renewed heavy reliance on coal power it would be a tremendous setback for China's energy transition. It would also constitute a challenge for companies with global zero-carbon targets given their production footprint in the country. This could even make China as a manufacturing location uneconomical for exports to the EU following the proposed EU carbon tax (a.k.a. the Carbon Border Adjustment Mechanism).

It is easy to be overwhelmed with all disruptions and challenges facing the Chinese economy. Despite this it is important to also consider what is moving in the right direction, and how China would look if these challenges were overcome.

China is making large investments into new technology areas and setting itself up to be a technology leader. Despite a most certain slower growth rate in the years to come, there are still pockets of growth and plenty of potential for Swedish companies to capture if they learn how to exist in this new environment.

AN UPDATED GAME PLAN

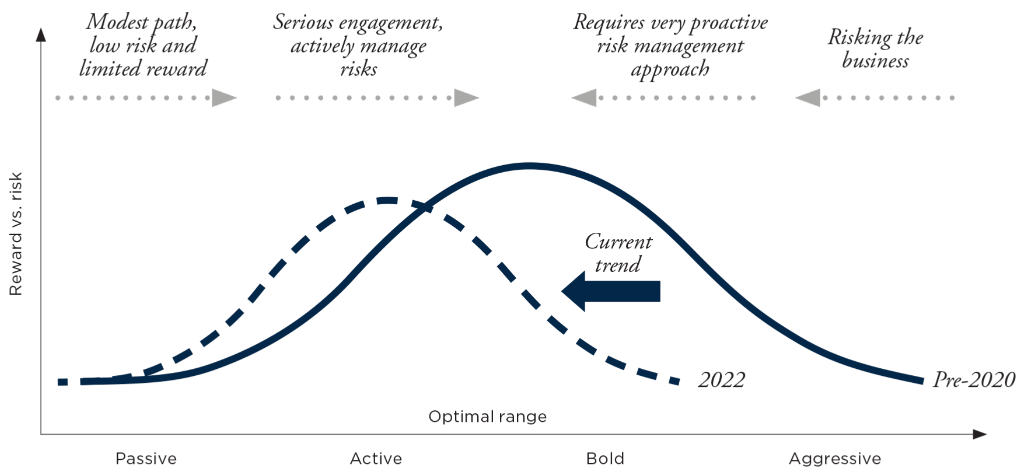
Due to the changing reality, China strategies that were set in place before 2020 are likely no longer valid. Companies not only need to rethink how they view their operations in China and how they engage with Chinese customers and partners, but they also need to consider the role of China – and their China operations – in an APAC context, given regional geopolitical tensions and economic uncertainty.

As established in previous sections, decoupling from China is not an option for most companies given the size and importance of the market. But beyond a decision not to pack up and leave, exactly *how* to exist in the market requires careful consideration and needs to be an active decision based on facts and reality, not on opinions, fear, or hope.

Finding the "right" approach and level of risk has always been key for succeeding in the Chinese market. Previously, a too passive or careful approach has resulted in companies missing out on the tremendous growth over the past 20 years. A too aggressive approach on the other hand, has meant that the whole business might have been put at risk.

Over the past 2-3 years, this imagined risk-reward curve has shifted significantly (see figure). If companies previously were most often rewarded for being bold, it is our assessment that companies need to be more careful, yet active, in the market going forward. It might even be so that missing out on some opportunities can be a blessing in disguise.

Shift of ideal risk appetite for foreign business in China



We thereby see an urgent need for companies to build resilience and increase agility to be able to navigate this time of heightened uncertainty. To this end, it is imperative to align company strategies with China's short, medium, and long-term policy targets and priorities, whilst ensuring that the operations are set up in the most suitable way to weather both expected *and* unexpected shifts in the market.

To do this we advise companies to embark on a three-step process:

1. Setting the China ambition

In a market where many companies have long seen double digit growth, ambitions have historically been set high. But with a shifting risk-reward ratio and an increasing number of external uncertainties impacting companies' ability to navigate the market, said ambitions might no longer be feasible. To navigate uncertainty, the first critical step is therefore to set an ambition for the Chinese market as well as for China's role in your regional and global operation. It is therefore imperative to reflect and decide on questions such as:

- What is the revenue and growth ambition for the coming 3-5 years?
- What is the ambition from a production and supply chain perspective, both for China as well as for the global supply chain?
- What is the ambition within R&D and innovation in China and for abroad?

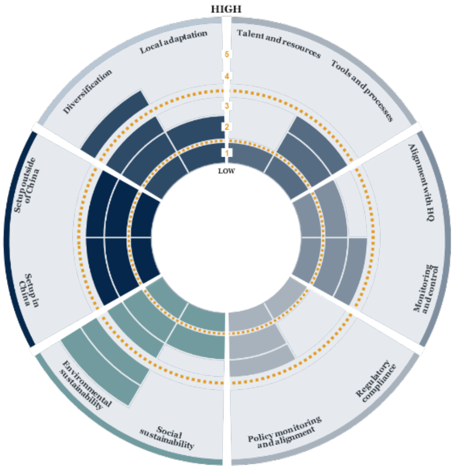
It is important to view these areas as interconnected components (e.g. supply and innovation should support and drive revenue and growth), but also to view them as independent components with potentially different ambition levels. Some companies may be more reliant on China on the revenue side and some on the manufacturing and supply chain side. Others are reliant on, or threatened by, China when it comes to new emerging technologies.

Finally, ambitions need to be realisable. Companies therefore need to understand both the importance of China to their global business in a national, regional, and global context, but also which and how dependencies exist between these levels.

With this as a starting point, a thorough analysis will reveal how dependent a company is on China to stay globally competitive and give an indication of the cost of being – or not being – in China.

2. *Assessing maturity*

Maturity assessment radar



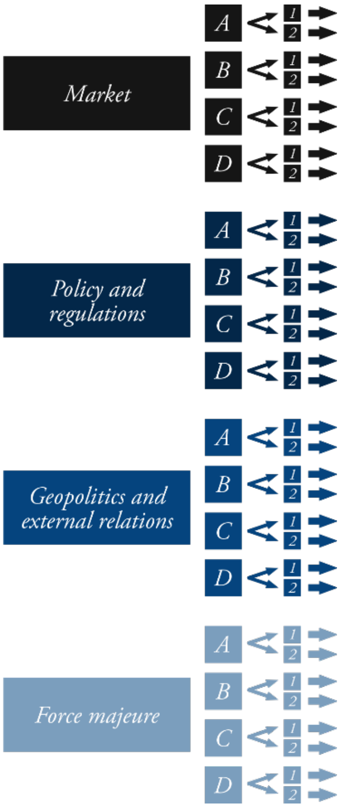
Once the ambition is set, we recommend companies to not only assess internal capabilities and define roadmaps, but also to assess how resilient the organisation is to external disruptions that can impact their ability to reach set ambitions. Doing so entails thinking through questions such as: How prepared are we to pursue our ambition in an uncertain environment? How resilient are we to disruptions on the market?

There is no definite answer with regards to how mature any one specific company needs to be as each company has its own focus and susceptibility to external disruptions. There is, however, an increasing need across all companies and industries to understand operations and ambitions from a resilience perspective. Such an analysis should focus first on assessing the company's current situation across a set of six dimensions and second on comparing the results to the company's wanted situation. The following are some of the high-level questions that needs to be asked, but the list is not exhaustive:

- **Go-to-market and portfolio**: Are our offerings, processes, and content properly adapted to the local environment? Do we have sufficient diversification across customers, industries, and channels to limit exposure to turbulence?
- **Production and supply chain**: Do we have the right setup in China and outside of China for our operations to withstand disruptions? Can we be fully in-China-for-China if needed? Do we have a China-free supply chain if needed?
- **Sustainability**: Do we have the right setup, control, and transparency in our environmental footprint? Do we have the right setup, control, and transparency in our social footprint?
- **Operations**: Do we have the right talent and resource setup for the Chinese market? Are tools and processes adapted to the needs of our China operations?
- **Governance**: Is alignment between headquarters / global and the local operations where it needs to be? Do we have the right control and monitoring mechanisms in place for our internal processes?
- **Policy and regulations**: Do we have the right setup / processes in place to ensure compliance with current regulations? Do we have the right processes and mechanisms in place to properly follow regulatory developments?

This can easily become an extensive exercise, but the focus should be on creating an alignment within the leadership team about where risks exists and what needs to be done to build towards success in and with China in the long-term. As this analysis spans different dimensions and aims to create alignment and awareness, it is crucial to include the full leadership team and other key roles in both HQ and the local operations in the exercise.

3. *Scenario planning*



In addition to building an inherent resilience and agility in the organization, companies also need to scenario plan to be better prepared for what the future might bring. The importance of scenario planning has been experienced by many companies first-hand after the Russian invasion of Ukraine in early 2022, but also following local disruptions such as the China power crisis in fall 2021.

In an increasingly uncertain environment companies should have thought through and planned for different scenarios. While some scenarios are more generic and would most certainly affect all companies on the market, although to a varying degree (e.g. the US Entity List), others will be highly company specific.

Scenario planning can be made to different depth and width. A thorough analysis would address probability and impact of a multitude of scenarios (both positive and negative), with different time horizons in mind (coming year, coming 3-5 years, coming 10 years).

But to plan and prepare for all types of scenarios is impractical and would end up being extremely costly. For most companies, the most feasible starting point is to put the complexity aside and consider a handful of scenarios under each area of disruption discussed in section 3. These should be high-impact scenarios that are probable – or at least increasingly probable.

- **Market and economy**:

  The optimistic scenario for the economy is that China manages to overcome its challenges and yet again becomes a high growth market. However, given the current challenge in rebalancing the economy, there is a higher probability of a more persistent economic slowdown and potentially a negative downward spiral. What does this mean for our business? What impact will it have on different customer segments? What happens if we see a 40 per cent drop in the infrastructure and property sector?

- **Policy and regulations:**

  In the short-term, zero-Covid is likely to continue to have a negative impact on businesses. In the medium to long-term, the policy that is likely to become an increasing challenge for foreign businesses is the drive for self-reliance. Here the key question for foreign businesses will be how to continue to be relevant in the market and how to be seen as “local enough” not to be disqualified by outright or inexplicit buy-local directives. At the same time, national champions will inevitably have unfair advantages through grants and funding for R&D, access to project deals, and other preferential treatment. New data and cyber security regulations add to these concerns, as broader technological decoupling could require foreign companies to double up on IT infrastructure to continue existing and growing in the China market.

- **Geopolitics and external relations**:

  The undesirable yet increasingly probable scenario of armed conflict involving China is the single most impactful event that could take place in the region. What would we do if Russia-like sanctions against China are introduced? Even if politicians do not implement as tough or coherent sanctions as the ones against Russia, a considerable drop in demand from both consumers and partners would have a similar effect at least in the short- to medium-term. The domino effect from a potential conflict would be broad and far-reaching and would be the final step towards complete technical decoupling (e.g. all applications needed to be built on Chinese OS for SOE customers, all VPNs shut down).

- **Force majeure:**

  China is already suffering from frail environmental ecosystems after years of environmental degradation. Like the rest of the world, China is also experiencing more frequent adverse climate events. Challenges from heatwaves, draughts and floodings will continue to impact energy supply, food production, manufacturing and supply chains going forward. Are we geographically diversified in China to weather these disruptions? How does this affect our global supply chains? Infectious diseases are another concern. Over the past two decades we have already seen SARS, MERS, swine flu (H1N1), Ebola, and Covid-19. Do we have contingency plans put in place to lessen the impact on our business when the next epidemic or pandemic strikes?

Identifying the most impactful scenarios at the right level for the operations across the four dimensions is essential in this. If the scenarios are too broad, then the scenario planning and reaction plans become too broad, and reversely if too narrow, then most likely reaction plans might not be defined to fit the reality.

It is therefore crucial to adopt a structured approach involving different business functions to identify the main scenarios and their domino effects. Based on this understanding, key indicators for tracking the development and action plans for how to respond need to be assigned and put in place. By doing this, organisations can be notified ahead of time if any of the identified scenarios are more probable to happen.

CHARTING THE COURSE

Sail through the turbulence

Despite the turbulence and uncertainties seen in the market over the past few years, China's importance for Swedish and other foreign companies has not diminished. The market still play an important role in global operations – for revenue and profit, manufacturing and supply chains, and innovation – and withdrawing from the market is for most companies not an option.

But the environment has changed. The double-digit growth seen by many companies over many years is no longer the norm and external factors increasingly impact the business negatively. The slowing economy is putting pressure on companies' top and bottom lines, policy decisions can send sudden shocks waves through whole industry segments, geopolitical tensions between China and the world squeeze foreign companies from both sides, and natural disasters have led to power outages that have left operations shut down for days or even weeks on end. In addition, pandemic control measures have restricted international travel decoupling China and global operations.

But there are actions that companies and management teams can make to recalibrate their strategies to be better prepared for the new environment – to help navigate uncertainty:

1 **Set ambition:**
Revisit and recalibrate your ambition for the Chinese market as well as for China's role in your regional and global operation to ensure it takes into consideration all the complexities of the new reality

2 **Assess maturity**:
Conduct analysis to assess your internal capabilities and identify maturity gaps to be better prepared to handle both incremental changes and more significant disruptions in the market

3 **Scenario plan**:
Think through and plan for different scenarios that could have an impact on your business and establish plans ready to put in motion should the situation call for it

We help Swedish companies grow global sales and international companies invest and expand in Sweden.

BUSINESS-SWEDEN.COM

BUSINESS SWEDEN Box 240, SE-101 24 Stockholm, Sweden
World Trade Center, Klarabergsviadukten 70
T +46 8 588 660 00 F +46 8 588 661 90
info@business-sweden.se

Beijing office
Room 709-16, 7/F CYTS Plaza, No. 5 Dongzhimen Nandajie
Dongcheng District, Beijing 100007, P. R. China
T +86 10 5815 6006
ask.china@business-sweden.se

Shanghai office
12F, Sail Tower, 266 Hankou Road
Huangpu District, Shanghai 200001, P.R. China
T +86 21 6218 9955
ask.china@business-sweden.se

LINKEDIN.COM/COMPANY/BUSINESS-SWEDEN

TWITTER.COM/BUSINESSSWEDEN

FACEBOOK.COM/BUSINESSSWEDEN

INSTAGRAM.COM/BUSINESSSWEDEN