

NEW GLOBAL ORDER

What MNCs must do to survive – and leverage – the China Shock 2.0

The path lies somewhere between decoupling from China and pursuing global integration



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FOR decades, multinational companies (MNCs) have faced the challenge of coming up with a strategy to compete effectively in China. Their newest and more profound difficulty might well be the China Shock 2.0.

The phenomenon refers to the current global economic disruption caused by China's domestic strengths in advanced manufacturing and high-tech sectors, such as electric vehicles, batteries and solar panels.

Global trade, competition and industrial policy are being affected by the surge of low-cost exports from these industries due to heavily subsidised industrial capacity and weak domestic demand in the country.

Astute leaders in multinationals need to learn from the obstacles of the past to be successful in China in the present. Hint: it is not only about strategy; it is about organisational design and having an adaptive mindset.

Lessons from China Shock 1.0

When China first emerged on the global scene as a giant country with a massive and cheap labour force, it became attractive to MNCs for two reasons.

These firms saw a massive market, with many potential consumers and no competitors; they also saw a huge and cheap labour supply.

But neither the top line and bottom line growth they expected was realised, because innovative Chinese firms moved price frontiers down faster than multinational firms could leverage lower labour costs with improved efficiencies.

Then came the China Shock 1.0. Following Beijing's entry into the World Trade Organization in 2001, a tsunami of low-cost Chinese-manufactured exports flooded all corners of the world and industrial production moved en masse to China.

China's emergence as a market and industry, along with the China Shock 1.0, exposed multinational firms' weaknesses in their understanding of the country.

They underestimated the capacity for domestic Chinese industry to grow. They misunderstood the liabilities associated with local joint ventures in China. They misread the policy environment, assuming the comparative tranquillity of the single-party state would forever be favourable to foreign firms.

These weaknesses created impediments for MNCs' ability to compete long term against what we now see as an impor-



The Guangzhou factory of Midea, China's big name in technology and home appliances. Its market is both local and global.
PHOTO: BT FILE

tant, impressive and profound wave of emergent Chinese competitors with a presence both domestically and internationally.

BYD and Geely in automobiles. TikTok or Douyin in China – in social media. Lenovo in personal computers, Haier and Midea in home appliances and Xiaomi in electronics. These brands have become global household names.

Now, the question is: How can MNCs leverage the China Shock 2.0 to their advantage?

Winning with China Shock 2.0

Multinational firms cannot afford to underestimate the competitive capacity of Chinese firms again.

There are three places where the underestimation can occur.

The first is if multinationals continue to not realise just how rapidly and effectively Chinese competitors can move. Agility and adaptability are foundational words for the country's firms.

The second is to not be cognisant of the amount of importance Beijing places on growth and world-leading strength in industries such as artificial intelligence, automobiles, semi-conductors and other high-tech manufacturing sectors.

The third is to underappreciate the advances that have been made by indigenous and non-imitative inventions in China in these same industries.

If these underestimations occur, three prominent risks emerge.

The first is disengagement from China.

A multinational, universal decoupling from China might ride the rising tide of anti-Chinese sentiment in various societies and polities in the West, but it would run counter to the tide of emergent competition: China has world-leading industrial capacity.

Hence, the answer is not in blind integration or in binary separation; it is in adaptation, in finding the middle ground between integration and decoupling.

The second risk is to not engage and learn from Chinese competitors. Although it might run counter to corporate hubris from the West – which is the same pride that led to the initial underestimation of domestic Chinese competition in the 1990s – MNCs from the West can learn from their Chinese competitors.

The intense forge of competition in China has shaped world-beaters. Just as Chinese companies learned from their foreign counterparts a generation ago, international firms can now learn from their Chinese competitors.

The third risk is to be incorrectly exposed or adapt wrongly to the second China shock. Multinationals cannot blindly walk into China, given the current geopolitical tensions and the asymmetric learning and competitive outcomes of the past.

They must adopt a strategy and structure that allows for effective competition and learning in China, while protecting their operations elsewhere in the world.

The structural solution

Strategy and structure are intrinsically

linked; they are codependent on one another. A good strategy without a good structure is no strategy at all.

The structural solution to China for multinationals today is not a case of finding a balance in the ever-present dilemma between how much to integrate globally and how much autonomy local operations should have.

The global-local debate and the consequent solutions take on new meanings under this new paradigm, which is not a simple case of China+1.

The industries exposed to the China Shock 2.0 are some of the most sensitive in the world today. Semiconductors, AI, telecommunications, electric vehicles and clean technology face much greater geopolitical friction and scrutiny than luxury goods, consumer products or many traditional industrial sectors.

For leaders in MNCs, the parameters of the field are thus not global versus local, and the goal is not absolute efficiency via global integration. Leaders need to implement what we called "managed fragmentation" with selective redundancy.

In this new form of adaptive response, the multinational must develop partially separated systems of operations. In practice, this means, for example, changing the role of their headquarters.

In fast-paced environments such as China, centralised control means consistency, but also layers of approval, which can be fatal when Chinese competitors move at great speed.

Under this structure, local executive

teams must have the authority and acumen to determine prices, suppliers, product designs and, at some level, investments. Headquarters provide oversight but not operational control.

A second aspect concerns technology. A consistent aspect in integration is to globalise information technology, data, technology investments and AI: one enterprise resource planning system, one cloud architecture and one global data environment.

Now, MNCs must de-integrate systems. China-based operations increasingly require locally hosted infrastructure and separate data environments, while global operations remain on Western platforms. Appropriate gateways founded on company-specific compliance issues have to guard movements between systems.

AI amplifies the need for this divide. Western operations use Nvidia and Silicon Valley foundation models. China-based operations use Huawei infrastructure and DeepSeek or Qwen.

To avoid complete separation, there must be controlled connectivity. For example, data can move, but it may need cleaning. The best analogy is a federation, connected through actively managed interfaces.

Finally, MNCs must become more adept at internally managing the geopolitical environment. Geopolitics and the associated management acumen were once the domain of a country-risk report or a consultant briefing. In a world of complex regulations and sensitivities, multinationals must now build political management as an internal capability.

A new world for MNCs

Is this a pipe dream for multinationals looking to emerge on top of the second China shock?

No. It is an emerging corporate reality. Volkswagen has pushed research and development, procurement and product decisions into China, while partnering with XPeng for locally developed vehicle technology.

Siemens combines a "China for China" manufacturing and R&D strategy with new production capacity in Singapore, Europe and the US. Airbus has increased final assembly capacity in China while expanding parallel production in the US and Europe.

In today's highly contested world, the winners will not be the ones that run from the challenge and decouple from China. Nor will the winners be the ones that blindly pursue global integration.

The path to victory is in the middle-ground between compete and cooperate. It is in selective adaptation: to be as agile and aggressive as China's formidable competitors; to learn and leverage the tremendous tech-heavy industrial capacity being built in China; and to operate with a global consistency in values and purpose, while still being flexible enough to survive in a world where further fragmentation works to no one's advantage.

The writer is vice-dean of the MSc programmes at the National University of Singapore Business School. The opinions expressed in this article do not represent the views of NUS.

This essay is part of New Global Order, a series which explores how the changing world landscape is reshaping business, politics and beyond.