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# Strategies of Multinational Companies Entering China in the Era of U.S.-China Competition and Implications for Korea

Sang Baek Hyun Head of Team, Chinese Economy and Trade Team, Center for Area Studies (sbhyun@kiep.go.kr)
Ji Young Moon Associate Research Fellow, Chinese Economy and Trade Team, Center for Area Studies (morganmoon@kiep.go.kr)
Minsuk Park Senior Researcher, Chinese Economy and Trade Team, Center for Area Studies (mspark@kiep.go.kr)
Jonghyuk Oh Senior Researcher, Chinese Economy and Trade Team, Center for Area Studies (ojh@kiep.go.kr)
Yun Mi Oh Senior Researcher, Chinese Economy and Trade Team, Center for Area Studies

## I. Introduction

With the integration of resources and markets around the world sparked by the trend of globalization, multinational companies have continued to grow at a rapid pace. In particular, global manufacturers have maintained their competitiveness by distributing resources more efficiently while establishing a global value chain with China as their main production hub. However, measures taken by the U.S. to block China's access to technology and supply chains in some high-tech industries have prompted discussions on reorganization of the global supply chain, placing these multinational companies in an uncertain situation concerning their operations in China. At a time when competition between the U.S. and China is intensifying, it is necessary to look at the response strategies of global companies that have entered China and seek effective countermeasures for Korean companies.

## II. Changes in the Chinese Government's Foreign Capital Attraction Policy

First of all, since multinational companies' investment decisions and businesses in China have been adjusted according to changes in the Chinese government's policies to attract foreign capital, it is necessary to examine changes in the Chinese government's foreign capital attraction policy after the beginning of U.S.-China strategic competition. Under its "dual circulation" strategy, China is responding to U.S. control measures and expanding foreign capital attraction in the service and high-tech manufacturing sectors necessary for China's industrial advancement. In particular, the U.S.-China competition has led the Chinese government to expand its efforts to attract foreign capital through more preferential policies in high-tech manufacturing sectors, where the U.S. has concentrated its blocking measures. On the other hand, due to stricter labor and environmental regulations, and China's establishment of an independent supply chain, the business environment of multinational companies in China is deteriorating as systems and laws related to economic security are undergoing transformation.

The trend of foreign investment seen through Chinese FDI statistics indicates that, despite the U.S. ramping up efforts to contain China, the inflow of foreign investment is steadily increasing, especially in the service and high-tech manufacturing sectors that the Chinese government hopes to foster. However, when comparing the FDI of major countries before and after 2018, some countries and regions are cutting back their investment in China and the investor confidence index for China is also on the decline. These conflicting signals are also influenced by China's zero-covid policy, indicating it is necessary to continuously observe the FDI trend after China's reopening to understand how the U.S. measures to contain China in technology sectors have affected it.

## III. Transformation of Multinational Business Strategies in China

The U.S. is pursuing a strategy to block China through various means and systems, such as customs imposition (Article 301), export regulations (ECRA, EAR), import regulations (Article 889 of NDAA 2019), and investment restrictions (FIRMA, CHIPS, IRA, and NCCDA). Europe has also labeled China a “strategic competitor” and is redefining its partnership with China. After the U.S.-China trade war began, European companies' investment in China has been decreasing, with this mostly concentrated in specific industries and companies. Europe is pursuing a China strategy where cooperation and checks coexist, such as the case of Germany, which is strengthening cooperation with China while reducing dependence on China in areas related to economic security. Japan has implemented a “China+1” strategy to prepare for “China risks” after the Senkaku Islands (Chinese: Diaoyudao) dispute in 2012, and restructuring of investment in China. Recently, the number of Japanese companies moving production bases from China to ASEAN or reducing their dependence on Chinese supply chains has been increasing due to the U.S.-China competition and China’s zero-covid policy. Taiwan continues to pursue its New Southbound Policy and reshoring policies. With U.S.-China conflicts escalating geopolitical risks, the policy deadline was extended as the number of Taiwanese companies reshoring increased.

Multinational companies in China, from countries such as the U.S., Europe, and Japan, saw their overall management performance deteriorate after the U.S.-China conflict, adding to their difficulties due to implementation of the zero-covid policy. It was also confirmed that difficulties were aggravated by measures to strengthen the competitiveness of Chinese local companies and tighten cyber security in the process of China's response to U.S. containment measures. As the competition between the U.S. and China intensifies, multinational companies are responding in various ways, such as: decoupling the U.S.-China supply chain in the semiconductor field, diversifying production bases (relocating to Asean or India), and expanding entry into China (In China, For China).

Major countries' Chinese strategies are changing as competition between the U.S. and China intensifies, but unlike major governments' strategies, multinational companies' Chinese business strategies are mostly due to market factors such as rising production costs, intensifying competition with local companies, and sluggish local market sales. At the same time, it was confirmed that there are many cases of multinational companies expanding their investment into the huge Chinese market to enjoy a first-mover advantage in the electric vehicle sector. This points to multinational companies restructuring to explore high-tech fields and new markets due to changes in the business environment in China, rather than withdrawing their Chinese businesses or pushing for overseas relocation on a large scale.

## IV. Business Status of Korean Companies Entering China in the Age of U.S.-China Competition

Korean companies' investment in China continued to rise even after the U.S.-China conflict began, breaking an all-time high. Major investments are mainly made in high-tech manufacturing industries such as semiconductors and electric vehicles. Since the U.S.-China strategic competition, Korea's investment in China has been characterized by maximum investment, minimum number of new companies, withdrawal and relocation expansion, and concentrated investment in semiconductors and electric vehicles. This seems to be a process of restructuring similar to other multinational companies.

Looking at the business status of Korean companies operating in China, the operating profit ratio, sales, and import and export inducement effects of Korean companies have recently declined, indicating that their management performance is deteriorating. The results of the survey on business difficulties also showed that sluggish local demand, sluggish exports, rising labor costs, and intensifying competition were major difficulties. Overall, the business environment in China is deteriorating, but this was confirmed as due to market factors rather than the U.S.-China conflict.

A survey conducted by KIEP on 75 domestic manufacturers who had established branches in

China also showed that their business performance has deteriorated or uncertainties increased. In addition, the majority of companies are not considering new investments in China due to the U.S.-China conflict, geopolitical conflict, and implementation of zero-covid policy. Nevertheless, the U.S.-China conflict has not prompted many companies to move their Chinese operations to overseas locations. The majority of companies in China had aimed at entering the Chinese market, meaning they viewed the Chinese market from a more mid- to long-term perspective. As in the case of multinational companies, most of the major difficulties were due to market factors. However, as the U.S.-China conflict continues to pose potential risks, Korean companies feel the need to reorganize their supply chains. Small and medium-sized companies found it difficult to respond with active countermeasures, such as relocating production bases or seeking legal advice, due to their limited scope of information and funds.

## V. Implications for Korea

Promising countermeasures by Korean companies can be identified by referring to the Chinese strategies of multinational companies. Multinational companies are showing various types of responses, according to how they are affected by the U.S.-China strategic competition and the industries they belong to.

First of all, in the case of labor-intensive industries, it is necessary to consider withdrawing Chinese operations and relocating overseas, as production costs continue to rise in China and local Chinese companies gain higher levels of competitiveness. Moreover, it is difficult to maintain the price competitiveness of Chinese businesses in sectors subject to U.S. tariffs imposed on China. In the case of state-of-the-art semiconductors, the U.S. is expected to strongly push for a containment policy against China for national security reasons, making it necessary to prepare for the decoupling of supply chains between the U.S. and China, and to formulate prudent strategies to enter the Chinese market. Next, in the case of products that are highly dependent on the Chinese market, such as electric devices, it is necessary to pursue a strategy to diversify the production base of “China+1 or N” to strike a balance between the potential of the Chinese market and supply chain stability affected by the U.S.-China conflict. In addition, in areas with high potential in the Chinese market, such as electric vehicles and renewable energy, it is necessary to expand entry into China to gain an early mover advantage in the Chinese market. However, in order to prepare for the separation of supply chains between the U.S. and China, it will also be necessary to promote the “In China, For China” strategy of both producing and conducting sales within China. KIEP