Chinese business & finance

Foreign companies adopt 'China for China' strategy

Beijing's coronavirus restrictions may have hit business optimism, but some groups are investing more

Although companies from around the world took part in the China International Import Expo in Shanghai this month, few foreigners could attend because of pandemic restrictions © Hector Retamal/AFP/Getty Images

Thomas Hale and **Wang Xueqiao** in Shanghai YESTERDAY

As snap lockdowns and quarantine measures disrupted China’s business landscape in October, a high-profile survey of foreign companies in Shanghai showed optimism had hit its lowest level as a result of Beijing’s coronavirus policies.

But just weeks later at the China International Import Expo in Shanghai, one of the world’s biggest trade fairs attended by more than half of global Fortune 500 companies, a section of businesses including Kärcher, a German cleaning equipment manufacturer, and Cytiva, a US life sciences company, said they were investing more in China.

Rather than rely on Chinese factories to produce goods that are ultimately sold elsewhere, the businesses are adopting a “China for China” strategy, which aims to draw on deeper research and development facilities in the country to make products for a vast, growing domestic market.

Covid-19 restrictions, which make it difficult to enter and leave the country, have helped reinforce the trend. “This year has been a tough year . . . lockdowns are difficult for any business,” said Rainer Kern, chief financial officer for China at Kärcher, a family-owned cleaning technology company with annual revenue of over €3bn.

“But overall the China market has developed in the last two years,” he said. “We want to develop more local for local production . . . we will sooner or later export, because certain trends that start here will also go into other markets, with a delay of three to five years".

China's pandemic policies and a regulatory crackdown have split investors on the country's outlook. While an American Chamber of Commerce survey showed a collapse in optimism, only a fifth of the 307 companies surveyed were decreasing their investment in China compared with 2021, while 30 per cent were increasing it.

Germany's Kärcher, which exhibited a range of cleaning vehicles and yellow decontamination hazmat suits at its stand at the Shanghai exhibition, plans to invest around Rmb1bn ($140mn) in China in the coming years and is establishing an R&D centre in Suzhou, a city west of Shanghai, where it will have 300 staff.

Cytiva, a medical technology company, said it had invested Rmb60mn in a research and development centre in China and is "localising" production for certain products. GE HealthCare said its medical scanners, which it currently produces in Japan and the US, would be made in China next year.

"We consider China's biological industry a big market and that is the main reason we are increasing investment," a spokesperson for Cytiva said, adding that local production helped to protect the supply chain against delays that could occur if parts were shipped in from abroad.

The comments reflect the lucrative demand that still exists within China, a country of 1.4bn people, despite its closure under Covid. They highlight an approach several groups are taking to develop their production lines within the country, so that products can be fully developed in China without the need to send parts elsewhere.

AstraZeneca, which has revenues of $6bn a year in China, told a media briefing this month that it would advance research and development in the country and expand its manufacturing bases. This year, the company opened a regional headquarters and an inhaler manufacturing facility in the north-east city of Qingdao.

Schneider Electric, a French multinational that specialises in energy management, said China was one of its four largest R&D centres globally, adding it had "innovation centres" close to its factories in the country. The company pointed to one product for controlling energy usage, which it said was designed for the Chinese market and is exported to other markets in Asia.

China's zero-Covid policies, which seek to eliminate all outbreaks of the virus through mass testing, quarantine and frequent lockdowns, have still caused major issues for foreign companies. Kärcher, for example, has a partnership with oil company Sinopec to provide car washing equipment but is currently unable to install new equipment because of lockdowns.

Yet Kern noted that Kärcher’s robotic vacuum cleaners, which are used at Shanghai’s Hongqiao railway station, demonstrated why it was important to have a presence in China because the AI technology developed in the country was far ahead of the competition.

“China is very much [about] speed. This is why we also do this R&D,” he said. “Because if we first talk to Germany to develop things, it takes too long.”