Green Shoots for Businesses in China's New Normal

After a historic economic contraction, opportunities beckon nimble-footed companies.

Spring may have come and gone, but green shoots are appearing in China's pandemic-battered economy. **Purchasing managers' indices** reflect consecutive months of expanding manufacturing activity since the country emerged in late March from a two-month lockdown. Oil demand has rebounded to more than 90 percent of pre-pandemic levels. As of 1 June, nearly all major companies in the retail sector had opened their doors once again. That same week, Adidas, for one, said its China sales had returned to growth, and predicted takings in the second quarter would be able to match the level seen last year.

Like nearly every other economy touched by Covid-19, though, it is far from business as usual in China. Traumatised by an unprecedented 6.8 percent GDP contraction in the first quarter of the year, the government has pushed out a **4 trillion yuan stimulus** to help manufacturers and business by reducing taxes and interest rates on loans, lowering utility charges and cutting social security contributions. Headwinds stirred by what is shaping up to be a global recession, as well as jitters over fresh outbreaks of the virus, notably in **Beijing**, means that any recovery in the near-term is bound to be rocky.

Still, the path ahead is strewn with more positives than negatives – if businesses are able to pivot nimbly in this evolving environment and take advantage of opportunities created. This was the view shared by executives at the recent INSEAD China Business Dialogue 2020, hosted by the **INSEAD Asia Europe Club**, **Emerging Markets Institute** and venture capital firm **ZWC**.

"I think businesses especially MNCs need to look at the winds of change and be able to react quickly, Jason Ong, Director of consulting firm AlixPartners, said at a panel discussion I moderated at the exclusive event for the INSEAD community. "What we see is the opportunity for firms to look at their current business and see how they can react and serve the customers better. It may not be an entirely new business. It could be changing the way they work. It could be modifying their products, either to suit a different customer set or changing consumer tastes."

V-shaped recovery?

Pickings in the world's largest exporter and trading nation are abundant in the immediate future, especially for companies that find themselves in the right industries. Hardy Zhang, Chief Financial Officer of NIU Technologies, a Nasdaq-listed maker and retailer of high-end electric scooters, motorcycles and bicycles, was bullish. The company's Q1 sales plunged by 44 percent in China and stock price slid to US$6 due to the shuttering of its 1,000 outlets in China, said Zhang. But now, business has picked up again and is growing by more than 50 percent year-on-year.

E-commerce has been a particular bright spot in the recovery, Zhang told participants of the China Business Dialogue. Pre-Covid, online sales accounted for only about 3 percent of NIU's sales. During the lockdown, online sales jumped by 70 percent and continued to surge – "doubling, tripling" – through April and May. He said: "I believe it's in e-commerce that we'll see a lot of opportunities in the next few months, maybe also for the rest of the year."

Fear of infection and, by extension, public transport, as well as the prevalence of other social distancing trends, also fuels demand for electric two-wheelers, observed Zhang. "We see a surge of demand for our products because people want to stay safe in open air. So I think my company is probably in one of the industries to benefit from social distancing."

For Lenovo, the world's largest PC vendor, China's recent decision to **speed up high-tech infrastructure development** couldn't have been better timed. Said Lianghao Chen, the company's Executive Director and Chief of Staff to CEO: "The new infrastructure project, which covers data centres, 5G, AI and industrial internet, is definitely what we are looking into. It aligns with our strategy of intelligent transformation…it also aligns with e-learning, ecommerce and new consumer habits."

"Besides hardware and infrastructure, there are also a lot of opportunities in software. For example, companies are now more open to adapting new ways to work more efficiently. So productivity tools or ideas, though probably not a sexy start-up idea, are going to be more and more important to the world."

Patrick Cheung, Founding and Managing Partner of ZWC, was similarly upbeat: "The new normal will create a lot of opportunities from our investor point of view." Opportunities, he said, cover **deep tech,** one of the flashpoints in renewed China-US tension, and industry digitisation, owing to the widespread adoption of working from home. Both sectors are still in the nascent stage of development in China, and are nowhere near birthing alternatives to the likes of Salesforce, Oracle and Microsoft.

"China-US tension has made the Chinese government firmly promote its deep tech industry, which lags behind the US...And digitisation of traditional companies will be the main focus of the internet industry," said Cheung. "More and more enterprises think that they need to spend money in this field (enterprise services and software)."

China-US tussle and beyond

He added: "If you are a long-term investor, I think you still can have 10 times, 20 times, even 50 times return by investing in enterprise-solution companies, especially given the opening of the **STAR market** (a Nasdaq-style bourse) in China.

"Covid-19 has changed the rules and made the China government bring out new infrastructure, national policies and strategies. In general I see more good things than bad things emerging after Covid-19."

A pandemic is certainly the sort of crisis that puts businesses through a rigorous stress test. Those that emerge on the other side are almost certain to be destined for bigger things. For example, look no further than Alibaba and JD.com, two behemoths that rose from the ashes of the SARS epidemic of 2002-2004.

In 2020, however, not only do companies have to grapple with a once-in-a-lifetime pandemic, they are also buffeted by geopolitical tension with China on one side and the US on the other, as well as growing backlash against globalisation. How should businesses and investors find their footing?

Ong of AlixPartners said companies may need to change their business models or restructure in tandem with consumer habits and supply chain shifts, among other "moving pieces". "We're used to firms coming to us for help in distress situations...One thing we see is consumer habits are going to be very different. People are looking at healthy lifestyles. People are looking at transparency and traceability in the supply chain. Can they trust the information they see? So there are a lot of moving pieces that our customers would be working through, and I think it's beneficial for us."

To manufacturers on the scale of Lenovo, one of the fundamentals of operations is a strong supply chain in a global landscape, a point brought home by the fact that the company was able to continue churning out computers during China's lockdown, thanks to its 30-plus facilities around the world. Chen said the company would seek to make its supply chain even more resilient in the longer term. "China's supply chain ecosystem took 40 years to build and will remain the strongest manufacturing base for Lenovo. At the same time, the global manufacturing footprint definitely adds necessary flexibility and will continue to be Lenovo's strength."

For investors, said Cheung of ZWC, equity will be attractive in the new normal due to nations adopting expansionary monetary policies and ushering in what could be a long period of low interest rates. "We believe that equity is still the most attractive asset in the new normal, especially in companies with sustainable high growth," he predicted. "The right companies have the technology and underlying business model. They create true innovation in both technology and business model... creating value and increasing efficiency."

Guoli Chen *is an Associate Professor of Strategy at INSEAD, where he focuses on the influence of CEOs, top executives and boards of directors on firms' strategic choices and organisational outcomes. He is also an expert in China strategy.*

Don't miss our latest content. Download the free ***INSEAD Knowledge app*** *today.*

Follow INSEAD Knowledge on ***Twitter*** *and* ***Facebook****.*

Find article at
https://knowledge.insead.edu/blog/insead-blog/green-shoots-for-businesses-in-chinas-new-normal-14471

Download the Knowledge app for free